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

FORM 10-K

(MARK ONE)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1993

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-7850

SOUTHWEST GAS CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CALIFORNIA (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	88-0085720 (I.R.S. EMPLOYER IDENTIFICATION NO.)
5241 SPRING MOUNTAIN ROAD POST OFFICE BOX 98510 LAS VEGAS, NEVADA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES	89193-8510 (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (702) 876-7237

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $1 par value	New York Stock Exchange, Inc. Pacific Stock Exchange, Inc.

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

9% DEBENTURES, SERIES A, DUE 2011	9 3/8% DEBENTURES, SERIES D, DUE 2017
9% DEBENTURES, SERIES B, DUE 2011	10% DEBENTURES, SERIES E, DUE 2013
8 3/4% DEBENTURES, SERIES C, DUE 2011	9 3/4% DEBENTURES, SERIES F, DUE 2002

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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes X No

AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NONAFFILIATES OF THE REGISTRANT:

$360,103,421 at March 18, 1994

THE NUMBER OF SHARES OUTSTANDING OF COMMON STOCK:

Common Stock, $1 Par Value 21,027,937 shares as of March 18, 1994

DOCUMENTS INCORPORATED BY REFERENCE

DESCRIPTION	PART INTO WHICH INCORPORATED
Proxy Statement dated March 31, 1994	III

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PART I

ITEM 1. BUSINESS

The registrant, Southwest Gas Corporation (the Company), is incorporated under the laws of the State of California effective March 10, 1931, and is comprised of two segments: natural gas operations and financial services. The natural gas operations segment (gas segment) includes natural gas transmission and distribution operations in Arizona, Nevada and California. The financial services segment consists of PriMerit Bank (the Bank), a wholly owned subsidiary, which operates principally in the thrift industry. See Selected Financial Data for financial information related to each business segment.

The executive offices of the Company are located at 5241 Spring Mountain Road, P.O. Box 98510, Las Vegas, Nevada 89193-8510, telephone number (702) 876-7237.

NATURAL GAS OPERATIONS

GENERAL DESCRIPTION

The Company is subject to regulation by the Arizona Corporation Commission (ACC), the Public Service Commission of Nevada (PSCN) and the California Public Utilities Commission (CPUC). These commissions regulate public utility rates, practices, facilities and service territories in their respective states. The service areas certificated to the Company by the respective regulatory commissions having jurisdiction over it are exclusive. They remain exclusive unless the Company defaults on its obligations to provide adequate service and another utility can be found that is willing and able to supply the service. The CPUC also regulates the issuance of all securities by the Company, with the exception of short-term borrowings. Certain of the Company's accounting practices, transmission facilities and rates are subject to regulation by the Federal Energy Regulatory Commission (FERC).

The Company purchases, transports and distributes natural gas to 932,000 residential, commercial and industrial customers in geographically diverse portions of Arizona, Nevada and California. There were 35,000 customers added to the system during 1993. The Company expects to add approximately 36,000 customers by the end of 1994. See Natural Gas Operations Segment -- Capital Resources and Liquidity of Management's Discussion and Analysis (MD&A) for discussion of capital requirements to meet this growth.

The table below lists the Company's percentage of operating margin (operating revenues less net cost of gas) by major customer class for the years indicated:

FOR THE YEAR ENDED	RESIDENTIAL AND SMALL COMMERCIAL	LARGE COMMERCIAL, INDUSTRIAL AND OTHER	ELECTRIC GENERATION, RESALE AND TRANSPORTATION
December 31, 1993	79%	7%	14%
December 31, 1992	80	8	12
December 31, 1991	78	9	13

The volume of sales and transportation activity for electric utility generating plants varies greatly according to demand for electricity and the availability of alternative energy sources; however, it is not material in relation to the Company's earnings. In addition, the Company is not dependent on any one or a few customers to the extent that the loss of any one or several would have a significant adverse impact on the Company.

Transportation of customer-secured gas to end-users on the Company's system continues to have a significant impact on the Company's throughput, accounting for 46 percent of total system throughput in 1993. Although the volumes were significant, these customers provide a much smaller proportionate share of the Company's operating margin as indicated in the table above. In 1993, there were 96 customers throughout the Company's service territories who utilized this service, transporting 725 million therms.

The demand for natural gas is seasonal, and it is management's opinion that comparisons of earnings for interim periods do not reliably reflect overall trends and changes in the Company's operations. Also, earnings for interim periods can be significantly affected by the timing of general rate relief.

PROPERTIES

The plant investment of the Company consists primarily of transmission and distribution mains, compressor stations, peak shaving/storage plants, service lines, meters and regulators which comprise the pipeline systems and facilities located in and around the communities it serves. The Company also includes other properties such as land, buildings, furnishings, work equipment and vehicles in plant investment. In addition, the Company leases several properties, including a Liquefied Natural Gas (LNG) storage plant on its northern Nevada system and a portion of the corporate headquarters office complex located in Las Vegas, Nevada. See Note 9 of the Notes to Consolidated Financial Statements for additional discussion regarding these leases. Total gas plant, exclusive of leased property, at December 31, 1993, was $1.4 billion, including construction work in progress. It is the opinion of management that the properties of the Company are suitable and adequate for its purposes.

Substantially all of the Company's gas mains and service lines are constructed across property owned by others under right-of-way grants obtained from the record owners thereof, on the streets and grounds of municipalities under authority conferred by franchises or otherwise, or on public highways or public lands under authority of various federal and state statutes. None of the Company's numerous county and municipal franchises are exclusive, and some are of limited duration. These franchises are renewed regularly as they expire, and the Company anticipates no serious difficulties in obtaining future renewals.

With respect to the right-of-way grants, the Company has had continuous and uninterrupted possession and use of all such rights-of-way, and the associated gas mains and service lines, commencing with the initial stages of the construction of such facilities. Permits have been obtained from public authorities in certain instances to cross, or to lay facilities along, roads and highways. These permits typically are revocable at the election of the grantor, and the Company occasionally must relocate its facilities when requested to do so by the grantor. Permits have also been obtained from railroad companies to cross over or under railroad lands or rights-of-way, which in some instances require annual or other periodic payments and are revocable at the grantors' elections.

The Company operates two major pipeline transmission systems: (i) a system owned by Paiute Pipeline Company (Paiute), a wholly owned subsidiary of the Company, extending from the Idaho-Nevada border to the Reno, Sparks and Carson City areas and communities in the Lake Tahoe area in both California and Nevada and other communities in northern and western Nevada; and (ii) a system extending from the Colorado River at the southern tip of Nevada to the Las Vegas distribution area.

The Company's northern Nevada and northern California properties are referred to as the northern system. The Company serves various communities in northern Nevada including Carson City, Elko, Fallon, Fernley, Lovelock, Winnemucca and Yerington. The Company also provides service to the north Lake Tahoe area. In addition, the Company also owns a Liquefied Petroleum Gas (LPG) facility located near Reno, Nevada.

The Arizona, southern Nevada and southern California properties of the Company are referred to as the southern system. The Company's service areas in Arizona include most of the central and southern areas of the state including Phoenix, Tucson, Yuma and surrounding communities. Service is provided in southern Nevada throughout the Las Vegas valley and Bullhead City. Communities served by the Company in southern California include Barstow, Big Bear, Needles and Victorville.

The Company also owns a 35,000 acre site in northern Arizona which was acquired for the purpose of constructing an underground natural gas storage facility, known as the Pataya Gas Storage Project (Pataya), to serve its southern system. Based upon current studies and the continued restructuring of the natural gas industry, the Company believes that it will need an underground natural gas storage facility, such as Pataya, in the future to meet the needs of its customers on the southern system. In addition to the gas storage facility, the

Company is considering other opportunities for other portions of the site, such as the partial sale of its water rights. Other potential uses for the land include sites for solar generating facilities, cogeneration facilities and various other business ventures. Project costs of $11.1 million have been capitalized through December 1993 and include land acquisition and related development costs.

RATES AND REGULATION

Rates that the Company is authorized to charge its distribution system customers are determined by the ACC, CPUC and PSCN in general rate cases and are derived using rate base, cost of service and cost of capital experienced in a historical test year, as adjusted in Arizona and Nevada, and projected for a future test year in California. The FERC regulates the northern Nevada transmission and LNG storage facilities of Paiute and the rates it charges for transportation of gas directly to certain end-users and to various local distribution companies (LDCs). The LDCs transporting on Paiute's system are: Sierra Pacific Power Company (Reno and Sparks, Nevada), Washington Water Power Company (South Lake Tahoe, California) and Southwest Gas Corporation (North Lake Tahoe, California and various locations throughout northern Nevada).

Rates charged to customers vary according to customer class and are fixed at levels allowing for the recovery of all prudently incurred costs, including a return on rate base sufficient to pay interest on debt and a reasonable return on equity. The Company's rate base consists generally of the original cost of utility plant in service, plus certain other assets such as working capital and inventories, less accumulated depreciation on utility plant in service, net deferred income tax liabilities, and certain other deductions. The Company's rate schedules in all of its service areas contain purchased gas adjustment (PGA) clauses which permit the Company to adjust its rates as the cost of purchased gas changes. Generally, the Company's tariffs provide for annual adjustment dates for changes in purchased gas costs. However, the Company may request to adjust its rates more often than once each year, if conditions warrant. These changes have no significant impact on the Company's profit margin.

Except for California, the Company is allowed to make a general rate case filing whenever management believes there is a need for additional rate relief. Within California, general rate case filings are required every three years, and attrition filings are made annually for the interim periods. The table below lists the docketed rate filings initiated and/or completed within each ratemaking area in 1993 and the first quarter of 1994:

RATEMAKING AREA	TYPE OF FILING	MONTH FILED	MONTH FINAL RATES EFFECTIVE
ARIZONA:			
Central..........................	General rate case	September 1992	September 1993
Southern.........................	General rate case	October 1993	--
CALIFORNIA:			
Northern & Southern.............	Attrition	November 1993	January 1994
Northern & Southern.............	General rate case	January 1994	--
NEVADA:			
Northern & Southern.............	General rate case	March 1993	November 1993(1)
FERC:			
Paiute...........................	General rate case	October 1992	(2)
Paiute...........................	Order No. 636 Restructuring	December 1992	November 1993

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(1) See Natural Gas Operations Segment -- Rates and Regulatory Proceedings of MD&A for a discussion of the Company's motion for reconsideration and the PSCN's decision to rehear several rate case issues.

(2) Interim rates reflecting the increased revenues became effective in April 1993. However, the rates are subject to refund until a final order is issued.

See Natural Gas Operations Segment - Rates and Regulatory Proceedings of MD&A for a discussion of each of the Company's recent rate filings.

COMPETITION

Electric utilities are the Company's principal competitors for the residential and small commercial markets throughout the Company's service areas. Competition for space heating, general household and small commercial energy needs generally occurs at the initial installation phase when the customer typically makes the decision as to which type of equipment to install and operate. The customer will generally continue to use the chosen energy source for the life of the equipment due to its relatively high replacement cost. As a result of its success in these markets, the Company has experienced consistent growth among the residential and small commercial customer classes.

Unlike residential and small commercial customers, certain large commercial, industrial and electric generation customers have the capability to switch to alternative energy sources. Rates for these customers are set at levels competitive with alternative energy sources such as fuel oils and coal. The Company has been able to maintain the maximum allowable prices for most of its alternate fuel capable customers. As a result of the Company's continued success in these competitive situations, management does not anticipate any material adverse impact on its operating margin. The Company maintains no backlog on its orders for gas service.

The Company continues to compete with interstate transmission pipeline companies, such as El Paso Natural Gas Company (El Paso) and Kern River Gas Transmission Company (Kern River), to provide service to end-users. End-use customers located in close proximity to these interstate pipelines pose a potential bypass threat and, therefore, require the Company to closely monitor each customer's situation and provide competitive service in order to retain the customer. The Company has experienced no significant financial impact to date from the threat of bypass, although industry restructuring as a result of the capacity release provisions of FERC Order No. 636 could increase the viability of enduse customer bypass directly to interstate pipeline companies.

A new interstate pipeline company, Tuscarora Gas Transmission Company (Tuscarora), has applied for FERC certification to build a pipeline which would compete with Paiute's fully subscribed pipeline by providing transportation services within a portion of Paiute's current service area. The FERC, which has jurisdiction over interstate gas pipelines, is currently reviewing the application. A final decision from the FERC is expected in late 1994.

Tuscarora's primary proposed customer would be Sierra Pacific Power Company (Sierra), Paiute's largest customer and an entity which is affiliated with Tuscarora. Sierra has indicated it would utilize the Tuscarora pipeline, if it is constructed, for transportation of a significant portion of its natural gas requirements related to its electric generation plants and its LDC customers. However, Sierra has also signed a ten-year contract with Paiute, which became effective in February 1993, through which Paiute provides firm transportation service to Sierra for these same electric generation plants and LDC customers. A significant portion of the revenues associated with this long-term contract are fixed, regardless of the volumes transported. During 1993, Sierra contributed $9.7 million, or three percent, of total Company margin.

It is not yet known if Tuscarora will proceed with the project. If constructed, competition from the Tuscarora pipeline could affect the future growth of Paiute. However, Sierra has indicated it plans to continue using Paiute for natural gas deliveries, regardless of whether the Tuscarora pipeline is constructed, because of the strong and steady demand for natural gas in the area. Paiute is continuing with its current expansion plans to meet the demands associated with other customer commitments.

DEMAND FOR NATURAL GAS

Deliveries of natural gas by the Company are made under a priority system established by each regulatory commission having jurisdiction over the Company. The priority system is intended to ensure that the gas requirements of higher-priority customers, primarily residential customers and nonresidential customers who use 50,000 cubic feet of gas per day or less, are fully satisfied on a daily basis before lower-priority customers,

primarily electric utility and large industrial customers able to use alternative fuels, are provided any quantity of gas or capacity.

Demand for natural gas is greatly affected by temperature. On cold days, use of gas by residential and commercial customers may be as much as eight times greater than on warm days because of increased use of gas for space heating. To fully satisfy this increased high-priority demand, gas is withdrawn from storage, peaking supplies are purchased from suppliers, or service to interruptible lower priority customers is curtailed as necessary to provide the needed delivery system capacity.

The industrial and commercial sectors are expected to demand greater quantities of natural gas in meeting new environmental standards enacted by local, state and federal governments. The Clean Air Act Amendments of 1990, for example, set new national clean air standards which will continue to increase the use of natural gas in industrial and power plant boilers, and in the fueling of motor vehicle fleets. A key element of the law allows industries to choose cost-effective options to meet the new standards. The comparatively low cost and clean-burning characteristics of natural gas make it an economical and environmentally safe option for industrial applications. The Company is supplying these expanding markets.

NATURAL GAS SUPPLY

With respect to natural gas supply, there is a free market for natural gas at the wellhead. During 1991, price ceilings on wells drilled after July 1989 were abolished and the remaining price ceilings on existing wells were abolished in January 1993. The elimination of price ceilings has had no direct impact on the Company because natural gas is selling well below the previous regulatory ceilings, and supplies are adequate. The last few years have generally demonstrated seasonal volatility in the price of natural gas, with higher prices in the heating season and lower prices during the summer or off-peak consumption period.

The Company believes that natural gas supplies will remain plentiful and readily available. The Company primarily obtains its gas supplies for its southern system from producing regions in New Mexico (San Juan basin), Texas (Permian basin) and Oklahoma (Anadarko basin). For its northern system, the Company primarily obtains gas from Rocky Mountain producing areas and from Canada. The Company arranges for transportation of gas to its Arizona, Nevada and California service territories through the pipeline systems of El Paso, Kern River, Northwest Pipeline Corporation and Southern California Gas Company (SoCal). The Company continually monitors supply availability on both short-term and long-term bases to ensure the continued reliability of service to its customers.

The Company's primary objective with respect to gas supply is to ensure that adequate, as well as economical, supplies of natural gas are available from reliable sources. The Company acquires its gas from a wide variety of sources, including suppliers on the spot market and those who provide firm supplies over short-term and longer-term durations. Balancing firm supply assurances against the associated costs dictate a continually changing natural gas purchasing mix within the Company's supply portfolio. The Company believes its portfolio provides security as well as the operating flexibility needed to meet changing market conditions. During 1993, the Company acquired gas supplies from nearly 60 suppliers.

In March 1993, the Company signed a "Wholesale Gas Transportation and Storage Service Agreement" with SoCal, in which SoCal agreed to serve as the Company's primary gas transporter to its southern California jurisdiction. The agreement also provided limited gas storage to the Company for use in its southern California jurisdiction. CPUC approval of the agreement was granted in July 1993. The agreement was effective in August 1993 for an initial period of 15 years. The Company concurrently terminated its relationship with Pacific Gas and Electric Company (PG&E) as its wholesale gas supplier and restructured its tariff to offer a wider array of unbundled sales and transportation services. The Company now secures all of its gas supplies for its southern California jurisdiction directly from suppliers, as it does for its other jurisdictions.

Natural Gas Industry Changes. In 1992, the FERC issued Order No. 636 and amendments thereto (Order No. 636). Order No. 636 required open-access interstate pipelines to significantly restructure their services prior to the 1993/94 winter heating season. Open-access interstate pipelines were required to implement a new method of rate design and to provide the information necessary for natural gas buyers and

sellers to arrange gas sales and transportation service on a more flexible basis. Additionally, pipelines were required to offer storage as a separate service, and to release this storage, if available, for use by transportation customers. Order No. 636 also required the implementation of a capacity release program whereby shippers can release available pipeline capacity on a temporary or permanent basis. The complete impact of implementation of Order No. 636 on the pipelines servicing the Company is not fully determinable at this time. However, as a result of the new method of rate design, the Company is experiencing higher costs. Management anticipates full recovery of the costs through its PGA provisions.

Because of these and other natural gas industry changes, the Company continues to evaluate natural gas storage as an option to enable the Company to take advantage of seasonal price differentials and to otherwise protect the Company from the uncertainties associated with spot market purchases and the Company's need to obtain natural gas from a variety of sources.

In November 1992, in order to increase its options concerning gas supplies, the Company and SoCal signed an agreement allowing the Company to use a portion of SoCal's underground natural gas storage facilities, subject to the precedent satisfaction of certain conditions. The agreement, subject to the precedent conditions, would allow the Company to store up to ten billion cubic feet of natural gas in SoCal's storage facilities and provide for firm redeliveries of the storage gas at a maximum rate of 300 million cubic feet of gas per day. The agreement becomes effective, for a term of 15 years, only if certain significant precedent conditions are fully satisfied. The conditions include regulatory approvals, negotiation of agreements with third parties integrally involved in transporting gas to and from the storage facilities, and completion of economic feasibility studies. In November 1993, the CPUC issued a resolution approving the agreement, subject to the condition that the CPUC reserve the right to reevaluate the rates underlying the agreement at any time and at its own discretion. The Company believes the resolution, and the conditions therein, seriously impaired the original long-term intent of the parties, and has formally rejected the resolution. The agreement will, therefore, require modification or cancellation and may be renegotiated to a shorter term than originally desired. There is currently no assurance that the agreement can be successfully renegotiated or that all of the precedent conditions can be satisfactorily resolved. Each of the conditions is significant and, individually or cumulatively, if not satisfactorily resolved, could result in cancellation of this agreement. It is currently anticipated that each of these issues will be addressed during 1994.

ENVIRONMENTAL MATTERS

The Company's activities do not pollute air, land or water in any significant manner. Accordingly, federal, state and local laws and regulations governing the discharge of materials into the environment have little direct impact upon either the Company or its subsidiaries. The Company is committed to protecting and improving the environment. Management believes that the practices and procedures of the Company are environmentally sound and do not harm the environment in any significant manner.

Environmental efforts, with respect to matters such as protection of endangered species and archeological finds, have resulted in the Company spending a greater amount of time in obtaining pipeline rights-of-way and sites for other facilities. However, increased environmental legislation and regulation are also perceived to be beneficial to the natural gas industry. Because natural gas is one of the most environmentally safe fuels currently available, its use will allow energy users to comply with stricter environmental standards. For example, management is of the opinion that legislation, such as the Clean Air Act Amendments of 1990 and the Energy Policy Act of 1992, has a positive effect on natural gas demand, including provisions encouraging the use of natural gas vehicles, cogeneration and independent power production.

EMPLOYEES

At December 31, 1993, the natural gas operations segment had 2,318 regular full-time employees. The Company believes it has a good relationship with its employees. None of the employees are represented by a union.

Reference is hereby made to Item 10 in Part III of this report on Form 10-K for information relative to the executive officers of the Company.

FINANCIAL SERVICES ACTIVITIES

GENERAL DESCRIPTION

The Bank is a federally chartered stock savings bank conducting business through branch offices in Nevada. During 1993, the Bank exited the metropolitan Phoenix, Arizona market through the sale of its Arizona branch operations. The Bank was organized in 1955 as Nevada Savings and Loan Association which, in 1988, changed its name to PriMerit Bank and its charter from a state chartered stock savings and loan association to a federally chartered stock savings bank. The Bank's deposit accounts are insured to the maximum extent permitted by law by the Federal Deposit Insurance Corporation (FDIC) through the Savings Association Insurance Fund (SAIF). The Bank is regulated by the Office of Thrift Supervision (OTS) and the FDIC, and is a member of the Federal Home Loan Bank (FHLB) system.

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

The Bank had been active in single-family residential real estate development until stringent regulatory capital requirements were imposed by the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA). The Bank has ceased making further investments in new real estate projects and is divesting its remaining real estate investments.

Since December 31, 1989 total assets have declined from $2.8 billion to $1.8 billion at December 31, 1993 as management restructured the balance sheet to more effectively operate under the guidelines of the FIRREA. The decrease is also part of a long-term Strategic Business Plan "right size-right structure" strategy to optimize the Bank's size.

While the low interest rate environment has had a beneficial impact on the Bank's cost of funds, it has also accelerated prepayments in the Bank's loan and debt security portfolios as borrowers refinance variable-rate and higher fixed-rate debt with relatively low fixed-rate loans. The replacement of these higher rate assets with lower yielding assets, partially offsets the benefit of the lower cost of funds.

The following table sets forth certain ratios for the Bank for each of the periods stated:

	FOR THE YEAR ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
Return on average assets (net earnings divided by average total assets)	0.3%	(0.5)%	(1.2)%	0.4%	0.5%
Return on average equity (net earnings divided by average stockholder's equity)	4.0	(6.0)	(17.2)	5.8	8.5
Equity-to-assets ratio (average stockholder's equity divided by average total assets)	8.2	7.5	6.7	6.1	5.9

LENDING ACTIVITIES

The Bank's loan portfolio totaled $837 million at December 31, 1993, representing 48 percent of total assets at that date. The loan portfolio consists principally of intermediate-term and long-term real estate loans and, to a lesser extent, secured and unsecured commercial loans, and consumer loans including: credit cards, home improvement, recreational vehicle, mobile home, marine and auto loans. During 1993, the Bank agreed to sell its credit card portfolio and enter into an agent bank relationship with the purchaser to issue credit cards to the Bank's customers. The sale was completed in 1994 at which time the Bank recognized a gain of $1.7 million. The contractual maturity of loans secured by single-family dwellings has historically been 30 years, although in recent years the Bank has made a number of loans with maturities of 23 years or less. As interest rates have declined, particularly during 1992 and 1993, prepayments of existing mortgages have substantially accelerated.

The following table sets forth the composition of the loan portfolio by type of loan at the dates indicated (thousands of dollars):

	DECEMBER 31,				
	1993	1992	1991	1990	1989
Loans collateralized by real estate:					
Conventional single-family residential	$436,853	$395,976	$497,448	$ 624,414	$ 625,608
FHA and VA insured single-family residential	25,051	24,670	35,563	25,221	19,552
Commercial mortgage	192,046	198,235	212,518	195,118	211,386
Construction and land(1)	82,638	91,344	120,776	174,068	165,396
	736,588	710,225	866,305	1,018,821	1,021,942
Commercial secured (other than real estate)	25,443	30,137	26,736	24,469	15,089
Commercial unsecured	354	384	3,966	6,339	5,790
Consumer installment	93,431	42,444	53,537	87,475	39,936
Consumer unsecured (including credit cards)	19,309	18,371	16,568	13,445	14,546
Equity and property improvement loans	21,061	16,712	14,287	11,012	11,588
Deposit accounts	2,944	4,248	5,122	5,589	5,658
	899,130	822,521	986,521	1,167,150	1,114,549
Undisbursed proceeds	(48,251)	(44,937)	(44,544)	(64,465)	(80,089)
Allowance for estimated credit losses	(16,251)	(17,228)	(12,061)	(3,646)	(4,384)
Premiums (discounts)	3,270	(125)	(1,294)	(1,285)	(2,990)
Deferred fees	(4,782)	(4,406)	(6,678)	(6,232)	(4,667)
Accrued interest	4,214	4,586	6,358	8,619	9,819
	(61,800)	(62,110)	(58,219)	(67,009)	(82,311)
Loans receivable	$837,330	$760,411	$928,302	$1,100,141	$1,032,238

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(1) The Bank's portfolio of construction loans is generally due in one year or less.

Loan Origination and Credit Risk

One of the Bank's primary businesses is to make and acquire loans secured by real estate and other collateral to enable borrowers to purchase, refinance, construct and improve such property. These activities entail potential credit losses, the size of which depends on a variety of economic factors affecting borrowers and the real estate collateral. While the Bank has adopted underwriting guidelines and credit review procedures to minimize credit losses, some losses will inevitably occur. Therefore, periodic reviews are made of the assets in an attempt to identify and deal appropriately with potential credit losses.

The Bank originates both fixed and adjustable-rate loans in the single-family residential, commercial mortgage, and consumer home equity portfolios. The Bank's adjustable-rate loans in these portfolios are based on various indices, including the prime rate, the 11th District cost of funds, the one-year U.S. Treasury yield, and various other indices to a lesser extent. Other consumer loans are generally fixed-rate, while construction and non-real estate commercial loans are generally adjustable-rate prime-based loans.

Many of the Bank's adjustable-rate loans contain limitations as to both the amount and the interest rate change at each repricing date (periodic caps) and the maximum rates the loan can be repriced over the life of the loan (lifetime caps). At December 31, 1993, periodic caps in the adjustable loan portfolio ranged from .25 percent to eight percent. Lifetime caps ranged from 9.75 percent to 22 percent.

See Financial Services Segment -- Risk Management -- Interest Rate Risk Management of MD&A for the Bank's static gap table which includes the maturity and repricing sensitivity of the Bank's loan portfolio.

The Bank's loan policies and underwriting standards are the primary means used to reduce credit risk exposure. The loan approval process is intended to assess both: (i) the borrower's ability to repay the loan by

determining whether the borrower meets the established underwriting criteria; and (ii) the adequacy of the proposed collateral by determining whether the appraised value of (and, if applicable, the cash flow from) the collateral property is sufficient for the proposed loan. Under OTS regulations, management is held responsible for developing, implementing and maintaining prudent appraisal policies.

The Bank's Credit Administration Department is responsible for adherence to approved lending policies and procedures, including proper approvals, timely completion of quarterly asset reviews, early identification of problem loans, reviewing the quality of underwriting and appraisals, tracking trends in asset quality and evaluating the adequacy of the allowance for credit losses.

As part of the regular asset review process, management reviews factors relating to the possibility and magnitude of prospective loan and real estate losses, including historical loss experience, prevailing market conditions and classified asset levels. The Bank is required to classify assets and establish prudent valuation allowances in accordance with OTS regulations.

Each loan portfolio contains unique credit risks for which the Bank has developed policies and procedures to manage as follows:

Single-Family Residential Lending. Single-family residential mortgage loans comprise 55 percent of the Bank's loan portfolio at December 31, 1993 compared to 55 percent at December 31, 1992. This portfolio represents the largest lending component and is the component which contains the least credit risk.

It is the general policy of the Bank not to make single-family residential loans which have a loan-to-value ratio in excess of 80 percent unless insured by private mortgage insurance, Federal Housing Authority (FHA) insurance or guaranteed by the Veterans Administration (VA). Single-family loans are generally underwritten to underwriting guidelines established by FHA, VA, Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) or preapproved private investors.

The Bank requires title insurance on all loans secured by liens on real property. The Bank also requires fire and other hazard insurance be maintained in amounts at least equal to the replacement cost of improvements on all properties securing its loans. If the subject property is located in a flood plain, special flood insurance is required.

Consumer Lending. Consumer loans include installment loans secured by recreational vehicles, boats, autos and mobile homes, credit card receivables, home equity loans, and loans secured by deposit accounts. Approximately 86 percent of the consumer loan portfolio is collateralized. The credit risk of the consumer loan portfolio is managed through both the origination function and the collection process. All consumer loan origination and collection efforts, except those secured by deposits, are performed at a central location in order to provide greater control in the process and a more uniform application of credit standards.

The Bank originates a majority of its installment loans through automobile, recreational vehicle and marine vehicle dealers. These loans are subject to underwriting by Bank personnel. Additionally, credit reviews of the dealers are performed on a periodic basis.

The Bank utilizes a bankruptcy predictor model to assist in the analysis of loan applications and credit reports. Additionally, as a follow up to the application process, a review of selected originations is performed to monitor adherence to credit standards.

Commercial and Construction. The commercial and construction portfolios consist of amortizing mortgage loans on multi-family residential and nonresidential real estate, construction and development loans secured by real estate, and commercial loans secured by collateral other than real estate. Construction loans and commercial/income property loans are generally underwritten with a discounted loan-to-value ratio of less than 75 percent.

The Bank manages its risk in these portfolios through its credit evaluation, approval and monitoring processes. In addition to obtaining appraisals on real estate collateral based loans, a review of actual and forecasted financial statements and cash flow analyses is performed. After such loans are funded, they are monitored by obtaining and analyzing current financial and cash flow information on a periodic basis.

To further control its credit risk in this portfolio, the Bank monitors and manages credit exposure on portfolio concentrations. The Bank's Risk Management Committee and Credit Administration Department regularly monitor portfolio concentrations by collateral types, industry groups, loan types, and individual and related borrowers. Such concentrations are assessed and exposures managed through establishment of limitations of aggregate exposures. The Bank has ceased originating new construction and commercial loans in California and Arizona to reduce the level of credit risk in its portfolio. Construction loans and commercial real estate loans (including multi-family) generally have higher default rates than single-family residential loans. See Financial Services Segment -- Risk Management -- Credit Risk Management of MD&A for a table that sets forth the amounts of classified assets by type of loan.

Origination, Purchase and Sale of Loans

The Bank originates the majority of its loans within the state of Nevada; however, under current laws and regulations, the Bank may also originate and purchase loans or purchase participating interests in loans without regard to the location of the secured property. During 1993, the Bank originated $500 million in new loans, of which 90 percent were secured by property located in Nevada, eight percent were secured by property located in Arizona and two percent were secured by property located in California. During 1992, the Bank originated $518 million in new loans, of which 84 percent were secured by property located in Nevada, ten percent were secured by property located in Arizona, and six percent were secured by property in California. As of December 31, 1993, 80 percent of the Bank's loan portfolio was secured by property located in Nevada, 11 percent secured by property located in California and eight percent secured by property located in Arizona. The Bank originates real estate and commercial loans principally through its in-house personnel.

Secondary Marketing Activity

The Bank has been involved in secondary mortgage market transactions through the sale of whole loans. In accordance with the Bank's accounting policy, fixed-rate residential loans with maturities greater than 25 years have been designated as held for sale. At December 31, 1993, $8.6 million of residential loans are designated as held for sale. See Note 4 of the Notes to Consolidated Financial Statements for additional discussion relating to such loans.

The Bank developed a comprehensive long-term Strategic Business Plan (the Plan) in order to reduce the level of interest rate, liquidity and prepayment risks. The Plan included a review of the Bank's balance sheet size, asset mix between fixed-rate and variable-rate assets, and interest rate risk. As a result of this review, the Bank began execution of a strategy to restructure its balance sheet, and changed its accounting policy with regard to loans held for investment versus held for sale. The Bank's balance sheet restructuring involved the sale of all fixed-rate singlefamily mortgage loans and mortgage-backed securities (MBS) with remaining maturities greater than or equal to 25 years, canceling interest rate swaps which hedged the interest rate risk of those assets, and reinvesting the proceeds of these sales in adjustable-rate debt securities and five-year fixed-rate balloon debt securities.

The Bank's accounting policy was amended to designate all fixed-rate loans with maturities greater than or equal to 25 years (which possess normal qualifying characteristics required for sale) as held for sale, along with loans originated for specific sales commitments. Fixed-rate loans with maturities less than 25 years, and all adjustable-rate loans continue to be held for investment.

In conjunction with the balance sheet restructuring, during 1992, the Bank sold $152 million of single-family residential fixed-rate loans, $241 million of fixed-rate debt securities with contractual maturities greater than 25 years, and canceled $300 million (notional amount) of interest rate swaps hedging these assets.

Under its loan participation and whole loan sale agreements, the Bank may continue to service the loans and collect payments on the loans as they become due. The amount of loans serviced for others was $477 million at December 31, 1993, compared to $576 million at year-end 1992, including $93 million and $145 million, respectively, of loans serviced for MBS originated and owned by the Bank. The Bank pays the participating lender, under the terms of the participation agreement, a yield on the participant's portion of the

loan, which is usually less than the interest agreed to be paid by the borrower. The difference is retained by the Bank as servicing income.

In connection with mortgage loan sales, the Bank makes representations and warranties customary in the industry relating to, among other things, compliance with laws, regulations and program standards and accuracy of information. In the event of a breach of these representations and warranties, or under certain limited circumstances, regardless of whether there has been such a breach, the Bank may be required to repurchase such mortgage loans. Typically, any documentation defects with respect to these mortgage loans that caused them to be repurchased, are corrected and the mortgage loans are resold. Certain repurchased mortgage loans may remain in the Bank's loan portfolio and, in some cases, repurchased mortgage loans are foreclosed and the acquired real estate sold.

Loan Fees

The Bank receives loan origination fees for originating loans and commitment fees for making commitments to originate construction, income property and multi-family residential loans. It also receives loan fees and charges related to existing loans, including prepayment charges, late charges and assumption fees. The amount of loan origination fees, commitment fees and discounts received varies with loan volumes, loan types, purchase commitments made, and competitive and economic conditions. Loan origination and commitment fees, offset by certain direct loan origination costs, are being deferred and recognized over the contractual life of such loans as yield adjustments.

ASSET QUALITY

Nonperforming Assets. Nonperforming assets may be comprised of nonaccrual assets, restructured loans and real estate acquired through foreclosure. Nonaccrual assets are those on which management believes the timely collection of interest is doubtful. Assets are transferred to nonaccrual status when payments of interest or principal are 90 days past due or if, in management's opinion, the accrual of interest should be ceased sooner. There are no assets on accrual status which are over 90 days delinquent or past maturity.

Management reviews and takes into consideration the results of internal loan reviews and assessments of the effect of current and expected future economic conditions on the loan and debt security portfolios. As part of the internal loan review process and through regulatory examination, assets are classified when deemed to contain more than acceptable levels of risk. Once an asset is placed on nonaccrual status, all previously accrued but uncollected interest is reversed from income and interest income is no longer recognized unless paid. Nonaccrual assets are restored to accrual status when, in the opinion of management, the financial condition of the borrower and/or debt service capacity of the security property has improved to the extent that collectibility of interest and principal appears assured and interest payments sufficient to bring the asset current are received. Loans to joint ventures for real estate development in which the Bank is either a participant or an equity participant are excluded from nonperforming assets because these types of loans are classified and accounted for as real estate investments under generally accepted accounting principles (GAAP).

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

	DECEMBER 31,				
	1993	1992	1991	1990	1989
Nonaccrual loans past due 90 days or more:					
Mortgage loans:					
Construction and land...............	$ 1,233	$ 8,514	$ 8,904	$ 6,599	$ 2,090
Permanent single-family residences........................	6,636	4,667	7,737	4,467	4,239
Other mortgage loans................	6,728	3,736	10,388	9,405	605
	14,597	16,917	27,029	20,471	6,934
Nonmortgage loans......................	184	2,164	87	331	1,168
Restructured loans.......................	2,842	1,190	1,229	1,385	505
Total nonperforming loans......	17,623	20,271	28,345	22,187	8,607
Real estate acquired through foreclosure	9,707	24,488	14,875	10,363	12,174
Total nonperforming assets.....	$27,330	$44,759	$43,220	$32,550	$20,781
Allowance for estimated credit losses....	$16,251	$17,228	$12,061	$ 3,646	$ 4,384
Allowance for estimated credit losses as a percentage of nonperforming loans....	92.21%	84.99%	42.55%	16.43%	50.94%
Allowance for estimated credit losses as a percentage of nonperforming assets...	59.46%	38.49%	27.91%	11.20%	21.10%

At December 31, 1993, all nonaccrual loans and real estate acquired through foreclosure are classified substandard. Additionally, $280,000 of the restructured loans are classified substandard.

The amount of interest income that would have been recorded on the nonaccrual and restructured assets if they had been current under their original terms was $1.5 million for 1993. Actual interest income recognized on these assets was $870,000, resulting in $640,000 of interest income foregone for the year. See further discussion below in Provision and Allowance for Credit Losses.

Classified Assets. OTS regulations require the Bank to classify certain assets and establish prudent valuation allowances. Classified assets fall in one of three categories -- "substandard," "doubtful" and "loss." In addition, the Bank can designate an asset as "special mention."

Assets classified as "substandard" are inadequately protected by the current net worth or paying capacity of the obligor or the collateral pledged, if any. Assets which are designated as "special mention" possess weaknesses or deficiencies deserving close attention, but do not currently warrant classification as "substandard." See Financial Services Segment -- Risk Management -- Credit Risk Management of MD&A for the amounts of the Bank's classified assets and ratio of classified assets to total assets, net of charge-offs.

Provision and Allowance for Credit Losses. The provision for credit losses is dependent upon management's evaluation as to the amount needed to maintain the allowance for losses at a level considered appropriate to the perceived risk of future losses. A number of factors are weighed by management in determining the adequacy of the allowance, including internal analyses of portfolio quality measures and trends, specific economic and market conditions affecting valuation of the security properties and certain other factors. In addition, the OTS considers the adequacy of the allowance for credit losses and the net carrying value of real estate owned in connection with periodic examinations of the Bank. The OTS may require the Bank to recognize additions to the allowance or reductions in the net carrying value of real estate owned based on their judgement at the time of such examinations. The OTS completed its examination of the Bank in February 1994. It deemed that the Bank's allowance for credit losses was adequate. The FDIC has indicated that it will not examine the Bank during 1994.

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

	MORTGAGE LOANS	CONSTRUCTION & LAND LOANS	NON-MORTGAGE LOANS	TOTAL LOANS	REAL ESTATE ACQUIRED THROUGH FORECLOSURE	REAL ESTATE HELD FOR SALE OR DEVELOPMENT	OTHER	TOTAL	RATIO*
Balance at 12/31/88.....	$ 1,959	$ 700	$ 587	$ 3,246	$ 3,731	$ 1,675	$ --	$ 8,652	
Provisions for estimated losses................	884	200	639	1,723	1,506	600	--	3,829	
Charge-offs, net of recoveries............	(51)	--	(717)	(768)	(3,092)	--	--	(3,860)	.33%
Transfers..............	(597)	--	--	(597)	597	--	--	--	
Acquired allowance......	40	--	740	780	433	--	--	1,213	
Balance at 12/31/89.....	2,235	900	1,249	4,384	3,175	2,275	--	9,834	
Provisions for estimated losses................	1,201	399	1,669	3,269	2,500	2,000	--	7,769	
Charge-offs, net of recoveries............	(657)	--	(1,166)	(1,823)	(3,233)	(117)	--	(5,173)	.43%
Transfers..............	(1,645)	--	(539)	(2,184)	1,645	--	539	--	
Balance at 12/31/90.....	1,134	1,299	1,213	3,646	4,087	4,158	539	12,430	
Provisions for estimated losses................	5,835	2,643	3,580	12,058	1,686	49,010	--	62,754	
Charge-offs, net of recoveries............	(394)	(1,121)	(1,545)	(3,060)	(6,595)	(49,529)	(62)	(59,246)	5.86%
Transfers...........	(583)	--	--	(583)	822	--	(239)	--	
Balance at 12/31/91.....	5,992	2,821	3,248	12,061	--	3,639	238	15,938	
Provisions for estimated losses................	1,903	6,460	5,766	14,129	--	18,309	--	32,438	
Charge-offs, net of recoveries............	(515)	(3,765)	(4,682)	(8,962)	--	(20,485)	--	(29,447)	3.29%
Balance at 12/31/92.....	7,380	5,516	4,332	17,228	--	1,463	238	18,929	
Provisions for estimated losses................	4,634	172	1,406	6,212	--	1,010	--	7,222	
Charge-offs, net of recoveries............	(3,191)	(2,248)	(1,750)	(7,189)	--	(1,538)	--	(8,727)	1.07%
Balance at 12/31/93.....	$ 8,823	$ 3,440	$ 3,988	$16,251	$ --	$ 935	$ 238	$ 17,424	

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* Ratio = Net charge-offs to average loans and real estate outstanding

Included in net charge-offs are $421,000, $1.7 million, $1.4 million, $1.9 million, and $2.6 million of recoveries for 1989 through 1993, respectively.

The real estate write-downs for 1992 were primarily the result of a decrease in the net realizable value and slower sales activity of five California single-family real estate development projects. The largest of these involved write-downs of $9.3 million as a result of an appraisal reflecting the continuing market decline in the California market and difficulty in obtaining third party construction financing.

The increase in the allowance for estimated credit losses as a percentage of nonperforming loans from 85 percent at December 31, 1992 to 92 percent at December 31, 1993, was due primarily to higher provisions for the single-family and consumer loan portfolios and debt security portfolio offset by decreases in real estate acquired through foreclosure.

Prior to the fourth quarter of 1991, the Bank established specific valuation allowances for identified probable losses on assets in its portfolio. During the fourth quarter of 1991, the Bank adopted a policy of charging off assets against previously established specific valuation allowances and directly charging off any newly identified probable losses on specific assets, thus directly reducing the carrying value of the asset.

Allocation of Allowance for Credit Losses. The following is a breakdown of allocated loan loss allowance amounts by major categories. However, in management's opinion, the allowance must be viewed in its entirety.

	DECEMBER 31,									
	1993		1992		1991		1990		1989	
	(THOUSANDS OF DOLLARS)									
	ALLOWANCE AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	ALLOWANCE AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	ALLOWANCE AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	ALLOWANCE AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	ALLOWANCE AMOUNT	PERCENT OF LOANS TO TOTAL LOANS
LOANS BY TYPE										
Real estate...	$ 8,823	76.9%	$ 7,380	81.2%	$ 5,992	82.4%	$ 1,134	84.4%	$ 2,235	90.8%
Construction and land...	3,440	4.0	5,516	4.3	2,821	4.8	1,299	4.9	900	2.3
Nonmortgage.	3,988	19.1	4,332	14.5	3,248	12.8	1,213	10.7	1,249	6.9
Total...	$16,251	100.0%	$17,228	100.0%	$12,061	100.0%	$ 3,646	100.0%	$ 4,384	100.0%

REAL ESTATE DEVELOPMENT ACTIVITIES

The Bank's investment in real estate held for development, net of allowance for estimated losses, excluding real estate acquired through foreclosure, decreased from $28.1 million at December 31, 1991 to $4.1 million at December 31, 1993. The Bank's pretax loss from real estate operations was $910,000 in 1993, $15.3 million in 1992 and $50.5 million in 1991.

At December 31, 1993, real estate held for sale or development principally includes two former branch facilities not included in the sale of the Arizona branch operations. See Note 5 of the Notes to Consolidated Financial Statements for a summary of real estate held for sale or development and a summary of income from real estate operations.

The Bank and its subsidiaries have ceased making investments in new real estate development activities as a result of legislative and regulatory actions which have placed certain restrictions on the Bank's ability to invest in real estate. See Regulation -- General herein for additional discussion. The Bank and its subsidiaries are actively pursuing the development and sale of the remaining real estate investments.

INVESTMENT ACTIVITIES

Federal regulations require thrifts to maintain certain levels of liquidity and to invest in various types of liquid assets. The Bank invests in a variety of securities, including commercial paper, certificates of deposit, U.S. government and U.S. agency obligations, short-term corporate debt, municipal bonds, repurchase agreements and federal funds. The Bank also invests in longer term investments such as MBS and collateralized mortgage obligations (CMO) to supplement its loan production and to provide liquidity to meet unforeseen cash outlays. Income from cash equivalents and debt securities provides a significant source of revenue for the Bank, constituting 48 percent, 43 percent and 39 percent of total revenues for each of the years ended December 31, 1991, 1992 and 1993, respectively.

On December 31, 1993, the Bank adopted Statement of Financial Accounting Standards (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities." In conjunction with adoption, the Bank designated the vast majority of its debt security portfolio as available for sale. At December 31, 1993, no securities were designated as "trading securities." See Note 2 of the Notes to Consolidated Financial Statements for further discussion.

The following tables present the composition of the debt security portfolios as of the dates indicated. See Financial Services Segment -- Capital Resources and Liquidity of MD&A and Note 3 of the Notes to Consolidated Financial Statements for further discussion of the portfolios:

	DECEMBER 31,		
	1993	1992	1991
	(THOUSANDS OF DOLLARS)		
DEBT SECURITIES HELD TO MATURITY			
GNMA -- MBS	$ --	$ 12,222	$ 153,422
FHLMC -- MBS	--	629,225	351,398
FNMA -- MBS	--	217,391	247,822
CMO	--	37,722	13,411
Corporate issue MBS	69,660	229,303	320,373
Money market instruments	--	100	100
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	--	15,996	9,960
Medium-term notes	--	17,018	54,077
Total	$ 69,660	$1,158,977	$1,150,563

	DECEMBER 31,		
	1993	1992	1991
	(THOUSANDS OF DOLLARS)		
DEBT SECURITIES AVAILABLE FOR SALE			
GNMA -- MBS	$ 9,672	$ 6,780	$ --
FHLMC -- MBS	379,786	--	--
FNMA -- MBS	119,657	--	--
CMO	47,249	--	--
Corporate issue MBS	24,106	--	--
Money market instruments	10,036	--	--
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	5,220	--	--
Total	$595,726	$ 6,780	$ --

The following schedule of the expected maturity of debt securities held to maturity is based upon dealer prepayment expectations and historical prepayment activity (thousands of dollars):

	EXPECTED MATURITY						
	WITHIN ONE YEAR	AFTER ONE YEAR WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS BUT WITHIN TWENTY YEARS	AFTER TWENTY YEARS	TOTAL AMORTIZED COST	YIELD
Corporate issue MBS	$14,702	$34,665	$ 15,931	$ 3,566	$796	$69,660	6.85%
Total	$14,702	$34,665	$ 15,931	$ 3,566	$796	$69,660	6.85%

The expected maturities of MBS and CMO are based upon dealer prepayment expectations and historical prepayment activity. The following schedule reflects the expected maturities of MBS and CMO and the contractual maturity of all other debt securities available for sale (thousands of dollars):

	EXPECTED/CONTRACTUAL MATURITY						
DECEMBER 31, 1993	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS BUT WITHIN TWENTY YEARS	AFTER TWENTY YEARS	TOTAL ESTIMATED FAIR VALUE	YIELD
GNMA -- MBS	$ 4,050	$ 5,257	$ 328	$ 37	$--	$ 9,672	8.41 %
FHLMC -- MBS	120,630	221,834	27,475	9,558	289	379,786	6.12
FNMA -- MBS	31,090	65,419	14,353	8,517	278	119,657	6.60
CMO	18,535	28,446	240	28	--	47,249	4.82
Corporate issue MBS	6,880	13,320	3,473	414	19	24,106	5.81
Money market instruments	10,036	--	--	--	--	10,036	3.37
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	--	5,220	--	--	--	5,220	5.93
Total	$191,221	$339,496	$ 45,869	$18,554	$586	$595,726	6.09 %

DEPOSIT ACTIVITIES

Deposit accounts are the Bank's primary source of funds constituting 77 percent of the Bank's total liabilities at December 31, 1993. The Bank solicits both short-term and long-term deposits in the form of transaction related and certificate of deposit accounts, primarily through its 25 branch offices. The Bank operates 17 branches in southern Nevada and eight branches in northern Nevada. During 1993, the Bank exited the metropolitan Phoenix, Arizona market through the sale of its Arizona branch operations.

The Bank's average retail deposit base has remained steady during the past three years, despite the effect of the Arizona sale, as a result of the strategic decision to alter the Bank's liability mix from wholesale to retail funding sources. Average retail deposits, as a percentage of average interest-bearing liabilities, were 79 percent in 1993, compared to 83 percent in 1992 and 72 percent in 1991. The Bank has emphasized retail deposits over wholesale funding sources in an effort to reduce the volatility of its cost of funds. Additionally, the Bank has emphasized growth in transaction based accounts versus term accounts in order to reduce its overall cost of funds. The growth in retail deposits has been achieved through marketing programs, increased emphasis on customer service and strong growth in southern Nevada.

In conjunction with the strategy to increase the core retail deposit base, the Bank discontinued accepting long-term brokered deposits in 1988. At December 31, 1993, the Bank had no brokered deposits, compared to $6.9 million at December 31, 1992. The FDIC has issued regulations regarding a depository institution's acceptance of brokered deposits. See Regulation -- General -- Deposit Activities herein for additional discussion.

The Bank's deposits decreased $414 million during 1993. During 1993, the Bank sold its Arizona branch operations, including $321 million in deposit accounts, in conjunction with the goals to reduce the Bank's total asset size and to shift the deposit mix toward a greater percentage of transaction accounts. The Bank's deposit base in Arizona was largely term CD based. The sale of the Arizona deposits was funded through the sale of debt securities. In accordance with the Bank's strategy of reducing its reliance on wholesale funding sources, wholesale deposits declined $4.5 million. The Bank has also experienced an outflow of deposits during 1993 as a result of customers seeking alternative investments to relatively low yielding insured deposits. Loan and debt security repayments produced adequate sources of funds to compensate for the deposit outflows.

At December 31, 1993, the Bank maintained over $265 million in collateral, at market value, which could be borrowed against or sold to offset any run-offs which could occur in retail deposits in the current low interest rate environment. The Bank considers this level of excess collateral to be adequate and considers the likelihood of substantial run-offs occurring to be remote.

The average balances in and average rates paid on deposit accounts for the years indicated are summarized as follows (thousands of dollars):

	1993		1992		1991	
	BALANCE	YIELD	BALANCE	YIELD	BALANCE	YIELD
Noninterest-bearing demand deposits	$ 77,144	-- %	$ 74,245	-- %	$ 46,992	-- %
Interest-bearing demand deposits	329,785	2.60	279,793	3.19	241,738	5.40
Savings deposits	83,935	2.81	71,548	2.49	62,245	5.20
Certificates of deposit	952,764	4.90	1,263,298	5.96	1,342,822	7.32
	$1,443,628	3.99 %	$1,688,884	5.09 %	$1,693,797	6.77 %

See Note 7 of the Notes to Consolidated Financial Statements for further discussion.

Certificates of deposit include approximately $152 million, $223 million and $245 million in time certificates of deposits in amounts of $100,000 or more at December 31, 1993, 1992 and 1991, respectively. The following table represents time certificates of deposits, none of which are brokered, in amounts of $100,000 or more by time remaining until maturity as of December 31, 1993 (thousands of dollars):

LESS THAN 3 MONTHS	3 MONTHS- 6 MONTHS	6 MONTHS- 1 YEAR	GREATER THAN 1 YEAR
$46,275	$30,718	$22,676	$ 52,576

BORROWINGS

Sources of funds other than deposits have included advances from the FHLB, reverse repurchase agreements and other borrowings.

FHLB Advances. As a member of the FHLB system, the Bank may obtain advances from the FHLB pursuant to various credit programs offered from time to time. The Bank borrows these funds from the FHLB principally on the security of its FHLB capital stock and certain of its mortgage loans. See Regulation -- Federal Home Loan Bank System herein for additional discussion. Such advances are made on a limited basis to supplement the Bank's supply of lendable funds, to meet deposit withdrawal requirements and to lengthen the maturities of its borrowings. See Note 11 of the Notes to Consolidated Financial Statements for additional discussion.

Securities Sold Under Repurchase Agreements. The Bank sells securities under agreements to repurchase (reverse repurchase agreements). Reverse repurchase agreements involve the Bank's sale of debt securities to an investment banking firm with a simultaneous agreement to repurchase the same debt securities on a specified date at a specified price. The initial price paid to the Bank under reverse repurchase agreements is less than the fair market value of the debt securities sold, and the Bank may be required to pledge additional collateral if the fair market value of the debt securities sold declines below the price paid to the Bank for these debt securities. See Note 8 of the Notes to Consolidated Financial Statements for additional discussion of the terms and description of the reverse repurchase agreements.

Reverse repurchase agreements are summarized as follows (thousands of dollars):

	1993	1992	1991
Balance at year-end	$259,041	$376,859	$265,504
Accrued interest payable at year-end	3,871	3,717	4,423
Daily average amount outstanding during year	305,123	204,222	246,071
Maximum amount outstanding at any month-end	367,859	376,859	353,735
Weighted-average interest rate during the year	4.30%	5.98%	7.19%
Weighted-average interest rate on year-end balances	4.31%	4.54%	6.44%

At December 31, 1993, the balance of reverse repurchase agreements included $49 million in long-term fixed-rate flexible reverse repurchase agreements with a weighted average interest rate of 8.62 percent.

EMPLOYEES

At December 31, 1993 the Bank had 622 full-time equivalent employees. None of the employees are represented by any union or collective bargaining group and the Bank considers its relations with its employees to be good.

COMPETITION

The Bank experiences substantial competition in attracting and retaining deposit accounts and in making mortgage and other loans. The primary factors in competing for deposit accounts are interest rates paid on deposits, the range of financial services offered, the quality of service, convenience of office locations and the financial strength of an institution. Direct competition for deposit accounts comes from savings and loan associations, commercial banks, money market mutual funds, credit unions and insurance companies. During 1993, the Bank experienced deposit outflows from certificate of deposit accounts as customers sought higher yielding alternative investments in this low interest rate environment. The Bank has sought to retain relationships with these customers by establishing an agreement with a third party broker to offer uninsured investment alternatives in the Bank's branches.

The primary factors in competing for loans are interest rates, loan origination fees, quality of service and the range of lending services offered. Competition for origination of first mortgage loans normally comes from savings and loan associations, mortgage banking firms, commercial banks, insurance companies, real estate investment trusts and other lending institutions.

PROPERTIES

The Bank occupies facilities at 25 locations in Nevada, of which 12 are owned. The Bank leases the remaining facilities. The Bank may add branches in the future in order to achieve the deposit goals set forth in the Bank's Plan. The Bank received approval from the Board of Directors to enter into negotiations for four new branches (three in Las Vegas and one in Reno). During 1994, specific sites are expected to be identified. See Note 9 of the Notes to Consolidated Financial Statements for a schedule of net future minimum rental payments that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1993.

REGULATION

General

In August 1989, FIRREA was enacted into law. FIRREA had and will continue to have a significant impact on the thrift industry including, among other things, imposing significantly higher capital requirements and providing funding for the liquidation of insolvent thrifts. In December 1991, the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) was enacted into law. This legislation included changes in the qualified thrift lender test, deposit insurance assessments and capital standards.

Regulatory Infrastructure. The Bank's principal supervisory agency is the OTS, an agency reporting to the U.S. Treasury Department. The OTS is responsible for the examination and regulation of all thrifts and for the organization, incorporation, examination and regulation of federally chartered thrifts.

The FDIC is the Bank's secondary regulator and is the administrator of the SAIF which generally insures the deposits of thrifts.

Deposit Insurance Premiums. During 1993, the FDIC implemented a risk-based deposit insurance premium assessment. Under the regulation, annual deposit insurance premiums ranging from 23 to 31 basis points are imposed on institutions based upon the institution's level of capital and a supervisory risk assessment. For the year ended December 31, 1993, the deposit insurance premium was $3.7 million.

Capital Standards. Effective December 1989, the OTS issued the minimum regulatory capital regulations (capital regulations) required by FIRREA.

The capital regulations require that all thrifts meet three separate capital standards as follows:

1. A tangible capital requirement equal to at least 1.5 percent of adjusted total assets (as defined).

2. A core capital requirement equal to at least three percent of adjusted total assets (as defined).

3. A risk-based capital requirement equal to at least eight percent of risk-weighted assets (as defined).

The OTS may establish, on a case by case basis, individual minimum capital requirements for a thrift institution which may vary from the requirements which would otherwise be applicable under the capital regulations. The OTS has not established such minimum capital requirements for the Bank.

A thrift institution which fails to meet one or more of the applicable capital requirements is subject to various regulatory limitations and sanctions, including a prohibition on growth and the issuance of a capital directive by the OTS requiring the following: an increase in capital, a reduction of rates paid on savings accounts, cessation of or limitations on deposit taking and lending, limitations on operational expenditures, an increase in liquidity, and such other actions as are deemed necessary or appropriate by the OTS. In addition, a conservator or receiver may be appointed under certain circumstances.

FDICIA required the federal banking agencies to adopt regulations which implemented a system of progressive constraints as capital levels decline at banks and savings institutions. The federal banking agencies have enacted uniform "prompt corrective action" rules which classifies banks and savings institutions into one of five categories based upon capital adequacy, ranging from "well capitalized" to "critically undercapitalized." As of December 31, 1993, the Bank is categorized as "well capitalized" under the regulation.

FDICIA also requires the appropriate federal banking agencies to take corrective action to restrict asset growth, acquisitions, branching and new business with respect to an "undercapitalized" institution and to take increasingly severe additional actions if the institution becomes "significantly undercapitalized" or "critically undercapitalized." FDICIA also prohibits dividends and other capital distributions and payment of management fees to a controlled entity, if following such distribution or payment, the institution would fall within one of the three "undercapitalized" categories. See Financial Services Segment -- Financial and Regulatory Capital of MD&A for further discussion.

An institution that fails to meet the minimum level for any relevant capital measure (an "undercapitalized institution") may be: (i) subject to increased monitoring by the appropriate federal banking regulator; (ii) required to submit an acceptable capital restoration plan within 45 days; (iii) subject to asset growth limits; and (iv) required to obtain prior regulatory approval for acquisitions, branching and new lines of businesses. The capital restoration plan must include a guarantee by the institution's holding company that the institution will comply with the plan until it has been adequately capitalized on average for four consecutive quarters, under which the holding company would be liable up to the lesser of five percent of the institution's total assets or the amount necessary to bring the institution into capital compliance as of the date it failed to comply with its capital restoration plan. A significantly undercapitalized institution, as well as any undercapitalized institution that does not submit an acceptable capital restoration plan, may be subject to regulatory demands for recapitalization, broader application of restrictions on transactions with affiliates, limitations on interest rates paid on deposits, asset growth and other activities, possible replacement of directors and officers, and restrictions on capital distributions by any bank holding company controlling the institution. Any company controlling the institution may also be required to divest the institution. If an institution's ratio of tangible capital to total assets falls below a level established by the appropriate federal banking regulator, the institution will be subject to conservatorship or receivership within 90 days unless periodic determinations are made that forbearance from such action would better protect the deposit insurance fund. Unless appropriate findings and certifications are made by the appropriate federal regulatory agencies, a critically undercapitalized institution must be placed in receivership if it remains critically undercapitalized on average during the calendar quarter beginning 270 days after the date it became critically undercapitalized. These new capital requirements and applicable banking regulations became effective in December 1992.

FDICIA also amends the grounds for appointment of a conservator or receiver for an insured depository institution to include the following events: (i) consent by the board of directors of the institution; (ii) cessation of the institution's status as an insured depository institution; (iii) the institution is undercapitalized and has no reasonable prospect of becoming adequately capitalized when required to do so, fails to submit an acceptable capital plan or materially fails to implement an acceptable capital plan and (iv) the institution is critically undercapitalized or otherwise has substantially insufficient capital.

FDIC imposed regulations provide that any insured institution which falls below a two percent minimum level ratio will be subject to FDIC deposit insurance termination proceedings unless it has submitted, and is in compliance with, a capital plan with its primary federal regulator and the FDIC. Additionally, an insured institution may be subject to deposit insurance termination proceedings, under certain circumstances, even if it meets or exceeds the two percent minimum level ratio requirement.

In January 1993, the OTS issued a Thrift Bulletin limiting the amount of deferred tax assets that can be used to meet capital requirements. Under the bulletin, for purposes of calculating regulatory capital, net deferred tax assets are limited to the amount which could be theoretically realized from carryback potential plus the lesser of the tax on one year's projected earnings or ten percent of core capital. Transitional provisions apply to deferred tax assets existing at December 31, 1992 which are not subject to the limitation.

At December 31, 1993 the Bank has recorded a net deferred tax liability and, therefore, is not subject to the regulation at this time. Management does not anticipate this regulation will impact the Bank's compliance with capital standards in the foreseeable future.

The capital regulations specify that only the following elements may be included in tangible capital: stockholder's equity, noncumulative perpetual preferred stock, retained earnings and minority interests in the equity accounts of fully consolidated subsidiaries. Further, goodwill and investments in and loans to subsidiaries engaged in activities not permitted of national banks must be deducted from assets and capital. See Regulation -- General -- Separate Capitalization of Nonpermissible Activities herein for additional discussion.

In calculating adjusted total assets under the capital regulations, certain adjustments are made to total assets to give effect to the exclusion of certain assets from tangible capital and to appropriately account for the investments in and assets of both includable and nonincludable activities.

Core capital under the current regulations may include only tangible capital, plus certain intangible assets up to a limit of 25 percent of core capital, provided such assets are: (i) separable from the thrift's assets; (ii) valued at an established market value through an identifiable stream of cash flows with a high degree of certainty that the asset will hold this market value notwithstanding the prospects of the thrift and (iii) salable in a market that is liquid. In addition, certain qualifying "supervisory" goodwill is includable as core capital as follows:

FOR THE PERIOD	THE APPLICABLE INCLUSION AS A PERCENTAGE OF ADJUSTED TOTAL ASSETS IS
Prior to January 1, 1992	1.500%
January 1, 1992 - December 31, 1992	1.000
January 1, 1993 - December 31, 1993	0.750
January 1, 1994 - December 31, 1994	0.375
Thereafter	0.000

At December 31, 1993 and 1992, $27 million and $28.8 million, respectively, of the Bank's goodwill qualified as supervisory goodwill. At December 31, 1993, $12.6 million of supervisory goodwill was includable in core capital. Due to the 0.375 percent limitation, on January 1, 1994 only $6.3 million of the Bank's supervisory goodwill was includable in core capital.

Regarding the risk-based capital requirement, under the capital regulations, assets are assigned to one of four "risk-weighted" categories (zero percent, 20 percent, 50 percent or 100 percent) based upon the degree

of perceived risk associated with the asset. The total amount of a thrift's risk-weighted assets is determined by multiplying the amount of each of its assets by the risk weight assigned to it, and totaling the resulting amounts.

The capital regulation also establishes the concept of "total capital" for the risk-based capital requirement. As defined, total capital consists of core capital and supplementary capital. Supplementary capital includes: (i) permanent capital instruments such as cumulative perpetual preferred stock, perpetual subordinated debt and mandatory convertible subordinated debt (capital notes), (ii) maturing capital instruments such as subordinated debt, intermediate-term preferred stock, mandatory convertible subordinated debt (commitment notes) and mandatory redeemable preferred stock, subject to an amortization schedule and (iii) general valuation loan and lease loss allowances up to 1.25 percent of risk-weighted assets.

The OTS has issued a regulation which adds a component to an institution's risk-based capital calculation in 1994. The regulation will require a reduction of an institution's risk-based capital by 50 percent of the decline in the institution's net portfolio value (NPV) exceeding two percent of assets under a hypothetical 200 basis point increase or decrease in market interest rates. Based upon management's estimate of its interest rate risk (IRR) exposure, and using data as of December 31, 1993, the Bank will not be subjected to a reduction of its risk-based capital requirement because the hypothetical change in the Bank's NPV is less than two percent of the estimated market value of the Bank's assets.

In order to strengthen the Bank's regulatory capital ratios, the Bank undertook numerous actions in 1993 and 1992. See Financial Services Segment -- Capital Resources and Liquidity of MD&A and Note 2 of the Notes to Consolidated Financial Statements for the calculation of the Bank's tangible capital, core capital and risk-based capital and related excesses as of December 31, 1993 and 1992, and a discussion of the proposed changes in capital requirements.

Separate Capitalization of Nonpermissible Activities. For purposes of determining a thrift's capital under all three capital requirements, its entire investment in and loans to any subsidiary engaged in an activity not permissible for a national bank must be deducted from the capital of the thrift. The capital regulations provide for a transition period with respect to this provision. During the transition period, a thrift is permitted to include in its calculation the applicable percentage (as provided below) of the lesser of the thrift's investments in and loans to such subsidiaries on: (i) April 12, 1989 or (ii) the date on which the thrift's capital is being determined, unless the FDIC determines with respect to any particular thrift that a lesser percentage should be applied in the interest of safety and soundness.

In July 1992, legislation was enacted which delayed the increased transitional deduction from capital for real estate investments, and allowed thrifts to apply to the OTS for use of a delayed schedule. The Bank applied for and received approval for use of the following delayed phase-out schedule:

FOR THE PERIOD	DEDUCTION FROM CAPITAL
Prior to July 1, 1994	25%
July 1, 1994 to June 30, 1995	40
July 1, 1995 to June 30, 1996	60
Thereafter	100

As of December 31, 1993, the Bank had $5.5 million in investments in and loans to nonpermissible activities which fall under this section of FIRREA, all of which are grandfathered according to the phase-out schedule outlined above. Included in this amount are investments in real estate, land loans and certain foreclosed real estate.

At December 31, 1993, under fully phased-in capital rules applicable to the Bank at July 1, 1996, the Bank would have exceeded its fully phased-in tangible, core and risk-based capital requirements by $81.8 million, $56.6 million, and $43.1 million, respectively. See Financial Services Segment -- Financial and Regulatory Capital of MD&A for further discussion.

Lending Activities. FIRREA limits the amount of commercial real estate loans that a federally chartered thrift may make to four times its capital (as defined). Based on core capital of $120 million at December 31,

1993, the Bank's commercial real estate lending limit was $480 million. At December 31, 1993, the Bank had $192 million invested in commercial real estate loans; therefore, this limitation should not unduly restrict the Bank's ability to engage in commercial real estate loans.

FIRREA conformed thrifts' loans-to-one-borrower limitations to those applicable to national banks. After December 31, 1991 thrifts generally are not permitted to make loans to a single borrower in excess of 15 percent to 25 percent of the thrift's unimpaired capital and unimpaired surplus (depending upon whether the loan is collateralized and the type of collateral), except that a thrift may make loans-to-one-borrower in excess of such limits under one of the following circumstances: (i) for any purpose, in any amount not to exceed $500,000 and (ii) to develop domestic residential housing units, in an amount not to exceed the lesser of $30 million, or 30 percent, of the thrift's unimpaired capital and unimpaired surplus, provided the thrift meets fully phased-in capital requirements and certain other conditions are satisfied. The Bank's loans-to-one-borrower limitation was $17.6 million at December 31, 1993. This limitation is not expected to materially affect the operations of the Bank. At December 31, 1993 the Bank was in compliance with the limitation.

In December 1992, the OTS issued a regulation regarding real estate lending standards, as mandated by FDICIA, which became effective in March 1993. The regulation requires insured depository institutions to adopt and maintain comprehensive written real estate lending policies which include prudent underwriting standards, loan administration procedures, portfolio diversification standards, and documentation, approval and reporting requirements. The policies must be reviewed and approved annually to ensure appropriateness for current market conditions. The regulation also provides supervisory loan-to-value limits for various types of real estate based loans. Loans may be originated in excess of these limitations up to a maximum of 100 percent of total regulatory capital. Management does not anticipate that the regulation will have a material impact on the Bank's lending operations.

In August 1993, the OTS issued revised guidance for the classification of assets and a new policy on the classification of collateral-dependent loans (where proceeds from repayment can be expected to come only from the operation and sale of the collateral). With limited exceptions, effective September 1993, for troubled collateral-dependent loans where it is probably that the lender will be unable to collect all amounts due, an institution must classify as "loss" any excess of the recorded investment in the loan over its "value," and classify the remainder as "substandard." The "value" of a loan is either the present value of the expected future cash flows, the loan's observable market price or the fair value of the collateral. The Bank does not anticipate any adverse impact from the implementation of the revised guidance for classification of assets or collateral-dependent loans.

The federal agencies regulating financial institutions issued a joint policy statement in December 1993 providing quantitative guidance and qualitative factors to consider in determining the appropriate level of general valuation allowances that institutions should maintain against various asset portfolios. The policy statement also requires institutions to maintain effective asset review systems and to document the institution's process for evaluating and determining the level of its general valuation allowance. Management believes the Bank's current policies and procedures regarding general valuation allowances and asset review procedures are consistent with the policy statement.

FDICIA amended the Qualified Thrift Lender (QTL) test prescribed by FIRREA by reducing the qualified percentage to 65 percent and adding certain investments as qualifying investments. A savings institution must meet the percentage in at least nine of every 12 months. At December 31, 1993, the Bank's QTL ratio was approximately 79 percent. A thrift that fails to meet the QTL test must either become a commercial bank or be subject to a series of restrictions.

Deposit Activities. FDIC rules permit well capitalized institutions to obtain brokered deposits in most circumstances. Adequately capitalized institutions may obtain brokered deposits only if they obtain a waiver from the FDIC. Undercapitalized institutions are prohibited from accepting brokered deposits. The Bank is classified as well capitalized for purposes of this rule. The Bank does not anticipate that there will be any impact on its business operations or deposit pricing as a result of this rule because the Bank is not currently accepting new brokered deposits and does not anticipate soliciting brokered deposits or deposits at rates significantly higher than prevailing rates.

Supervisory Restrictions. In October 1991, the Bank entered into a Supervisory Agreement (the Agreement) with the OTS. Among other things, the Bank agreed to: retain competent management, improve the review and monitoring of problem assets, develop comprehensive business plans which support decisions concerning real estate development projects and foreclosed real estate, and reduce interest rate risk. In November 1993, the Agreement was terminated based upon corrective actions taken by the Bank.

Safety and Soundness Standards. Pursuant to statutory requirements, the OTS issued a proposed rule on November 17, 1993, that prescribes certain "safety and soundness standards." The standards are intended to enable the OTS to address problems at savings associations before the problems cause significant deterioration in the financial condition of the association. The proposed regulation provides operational and managerial standards for internal controls and information systems, loan documentation, internal audit systems, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. The proposed regulation also requires a savings association to maintain a ratio of classified assets to total capital and ineligible allowances that is no greater than 1.0. A minimum earnings standard is also included in the proposed regulation requiring earnings sufficient to absorb losses without impairing capital. Earnings would be sufficient under the proposed regulation if the institution meets applicable capital requirements and would remain in capital compliance if its net income or loss over the last four quarters of earnings continued over the next four quarters of earnings. An institution that fails to meet any of the standards must submit a compliance plan. Failure to submit an acceptable compliance plan or to implement the plan could result in an OTS order or other enforcement action against the association. The Bank's level of adversely classified assets is less than its total capital plus ineligible allowances at December 31, 1993 as defined under the proposed rule.

Federal Home Loan Bank System

The FHLB system consists of 12 regional FHLB banks, which provide a central credit facility primarily for member institutions. The Bank, as a member of the FHLB of San Francisco, is required to own capital stock in that institution in an amount at least equal to: one percent of the aggregate outstanding balance at the beginning of the year of its outstanding residential mortgage loans, home purchase contracts and similar obligations; 0.3 percent of total assets; or five percent of its advances from the FHLB, whichever is greater. The Bank is in compliance with this requirement, with an investment in FHLB stock at December 31, 1993 of $16.5 million.

Liquidity

The Bank is required to maintain an average daily balance of liquid assets equal to at least five percent of its liquidity base (as defined in the Regulation) during the preceding calendar month. The Bank is also required to maintain an average daily balance of short-term liquid assets equal to at least one percent of its liquidity base. The Bank has complied with these regulatory requirements. For the month of December 1993, the Bank's liquidity ratios were 18 percent and ten percent, respectively. See Financial Services Segment -- Capital Resources and Liquidity of MD&A for additional discussion.

Investments

In December 1991, the Federal Financial Institutions Examinations Council (FFIEC) issued its Supervisory Policy Statement on Securities Activities (Policy Statement). The Policy Statement: (1) addresses the selection of securities dealers, (2) requires depository institutions to establish prudent policies and strategies for securities transactions, (3) defines securities trading or sales practices that are viewed by the agencies as being unsuitable when conducted in an investment portfolio, (4) indicates characteristics of loans held for sale or trading, and (5) establishes a framework for identifying when certain mortgage derivative products are high-risk mortgage securities which must be held either in a trading or held for sale account. Management believes that items (1) through (4) will not unduly restrict the present operating strategies of the Bank. Item (5) will not affect the Bank's treatment of its $5 million investment in CMO residuals since the Policy Statement includes a grandfathering provision whereby any mortgage derivative owned prior to the date of adoption by the OTS is exempt from the tests. However, the Bank will have to apply the specified tests

to any mortgage derivative product, including CMO, Real Estate Mortgage Investment Conduits (REMIC), CMO and REMIC residuals and stripped MBS purchases in the future.

Insurance of Deposits

The Bank's deposits are insured by the FDIC through the SAIF up to the maximum amount permitted by law, currently $100,000 per insured depositor. The SAIF requires semiannual insurance premium payments in January and July of each year. See Regulation -- General -- Deposit Insurance Premiums herein for additional discussion of insurance premiums to be paid by SAIF members.

Insurance of deposits may be terminated by the FDIC, after notice and hearing, upon a finding by the FDIC that a thrift has engaged in unsafe or unsound practices, or is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the OTS and FDIC. Management of the Bank is not aware of any practice, condition, or violation that might lead to termination of its deposit insurance.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (CRA) and regulations promulgated under the act encourage savings associations to help meet the credit needs of the communities they do business in, particularly the credit needs of low and moderate income neighborhoods. The OTS periodically evaluates the Bank's performance under CRA. This evaluation is taken into account in determining whether to grant approval for new branches, relocations, mergers, acquisitions and dispositions. The Bank received a "satisfactory" evaluation in its most recent examination.

Federal Reserve System

The Board of Governors of the Federal Reserve System (the Federal Reserve) has adopted regulations that require depository institutions to maintain noninterest earning reserves against their transaction accounts (primarily negotiable order of withdrawal (NOW), demand deposit accounts, and Super NOW accounts) and nonpersonal money market deposit accounts. These regulations generally require that reserves of three percent be maintained against aggregate transaction accounts in an institution, up to $47.9 million, and an initial reserve of ten percent be maintained against that portion of total transaction accounts in excess of such amount. In addition, an initial reserve of three percent must be maintained on nonpersonal money market deposit accounts (which include borrowings with maturities of less than four years). These accounts and percentages are subject to adjustment by the Federal Reserve. The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements which may be imposed by the OTS. At December 31, 1993, the Bank was required to maintain approximately $1.8 million in noninterest earning reserves and was in compliance with this requirement.

As a creditor and financial institution, the Bank is subject to additional regulations promulgated by the Federal Reserve, including, without limitation, Regulation B (Equal Credit Opportunity Act), Regulation E (Electronics Funds Transfers Act), Regulation F (Interbank Liabilities), Regulation Z (Truth in Lending Act), Regulation CC (Expedited Funds Availability Act) and Regulation DD (Truth in Savings Act).

HOLDING COMPANY MATTERS

The Bank is a wholly owned subsidiary of the Company. As a unitary savings bank holding company, the Company is subject to certain OTS regulation, examination, supervision and reporting requirements. The Bank is generally prohibited from engaging in certain transactions with the Company and is subject to certain OTS restrictions on the payment of dividends to the Company.

In 1990, the OTS issued a regulation governing limitations of capital distributions, including dividends. Under the regulation, a tiered system keyed to capital is imposed on capital distributions. Insured thrifts fall under one of three tiers.

1. Tier 1 includes those thrifts with net capital exceeding fully phased-in requirements and with Management, Asset quality, Capital adequacy, Risk management and Operating results (MACRO) ratings of 1 or 2. (The MACRO system was established by the OTS to comprehensively and uniformly grade all thrifts with regard to financial condition, compliance with laws and regulations, and overall operating soundness.)

2. Tier 2 includes those thrifts having net capital above their regulatory capital requirement, but below the fully phased-in requirement.

3. Tier 3 includes those thrifts with net capital below the current regulatory requirement.

Under the regulation, insured thrifts are permitted to make dividend payments as follows:

1. Tier 1 thrifts are permitted to make (without application but with notification) capital distributions of half their surplus capital (as defined) at the beginning of a calendar year plus 100 percent of their earnings to date for the year.

2. Tier 2 thrifts can make (without application but with notification) capital distributions ranging from 25, 50 or 75 percent of their net income over the most recent four quarter period, depending upon their level of capital in relation to the fully phased-in requirements.

3. Tier 3 thrifts are prohibited from making any capital distributions without prior supervisory approval.

Based upon these regulations, the Bank is currently restricted to paying no more than 75 percent of its net income over the last four quarters in dividends to its parent. The Bank did not pay any cash dividends during the past three years and does not anticipate paying cash dividends to its parent during 1994.

Generally transactions between a savings and loan association and its affiliates are required to be on terms as favorable to the association as comparable transactions with nonaffiliates. In addition, certain of these transactions are restricted to a percentage of the association's capital. Affiliates of the Bank include the Company. In addition, a savings and loan association may not lend to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of such affiliates. It is not permissible for bank holding companies to operate a gas utility. Therefore, all loans by the Bank to the Company and all purchases of the Company's securities by the Bank are prohibited.

The Company, at the time that it acquired the Bank, agreed to assist the Bank in maintaining levels of net worth required by the regulations in effect at the time or as they were thereafter in effect so long as it controlled the Bank. The enforceability of a net worth maintenance agreement of this type is uncertain. However, under current regulations, a holding company that has executed a capital maintenance obligation of this type may not divest control of a thrift, if the thrift has a capital deficiency, unless the holding company either provides the OTS with an agreement to infuse sufficient capital into the thrift to remedy the deficiency or the deficiency is satisfied.

The Company is prohibited from issuing any bond, note, lien, guarantee or indebtedness of any kind pledging its utility assets or credit for or on behalf of a subsidiary which is not engaged in or does not support the business of the regulated public utility. As a result, there are limitations on the Company's ability to assist the Bank in maintaining levels of capital required by applicable regulations.

The Company also stipulated in connection with the acquisition of the Bank that dividends by the Bank to the Company would not exceed 50 percent of the Bank's cumulative net income after the date of acquisition, without approval of the regulators. In addition, the Company agreed that the Bank would not at any time declare a dividend that would reduce the Bank's regulatory net worth below minimum regulatory requirements as in effect at the time of the acquisition or thereafter. Since the acquisition, the Bank's cumulative net income is $29.5 million resulting in maximum dividends payable of $14.7 million as of December 31, 1993. Since the acquisition, the Bank has paid the Company $1.8 million in capital distributions, net of the $20 million of capital contributions received from the Company.

ITEM 2. PROPERTIES

The information appearing in Part I, Item 1, pages 2 and 18 in this report is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS

The Company has been involved with several lawsuits related to the May 4, 1988 fire and explosion at the Pacific Engineering & Production Company of Nevada (PEPCON) rocket fuel oxidizer plant in Henderson, Nevada. The lawsuits related to this incident, some of which named the Company as one of the defendants, were consolidated in the District Court for Clark County, Nevada under Case No. A264974. All claims have been settled by the various defendants. On December 14, 1992, a jury returned a verdict in favor of the Company on the PEPCON insurer's subrogation claim and the Court thereafter entered judgement in favor of the Company. During 1993, the Company's motions on behalf of its insurers to recover its costs and attorneys' fees resulted in a recovery of $1.6 million through a negotiated settlement. The settlement also resulted in the dismissal by the Nevada Supreme Court of two insurance companies' subrogation claims which were on appeal.

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

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The principal market in which the common stock of the Company is traded is the New York Stock Exchange. At March 18, 1994, there were 21,681 holders of record of common stock. The market price of the common stock was $17.13 as of March 18, 1994. Prices shown are those as quoted by the Wall Street Journal.

COMMON STOCK PRICE AND DIVIDEND INFORMATION

	1993		1992		DIVIDENDS PAID	
	HIGH	LOW	HIGH	LOW	1993	1992
Fiscal Quarter						
First	$17.88	13.38	$13.50	10.38	$.175	$.175
Second	18.50	16.75	14.63	12.63	.175	.175
Third	17.38	16.13	15.38	13.00	.195	.175
Fourth	18.50	15.50	14.50	12.88	.195	.175
					$.740	$.700

See Holding Company Matters and Note 2 of the Notes to Consolidated Financial Statements for a discussion of limitations on the Bank's ability to make capital distributions to the Company.

ITEM 6. SELECTED FINANCIAL DATA

CONSOLIDATED SELECTED FINANCIAL STATISTICS

(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
Operating revenues	$ 689,841	$ 718,483	$ 794,791	$ 867,671	$ 846,676
Operating expenses	602,263	642,635	765,688	761,244	734,436
Operating income	87,578	75,848	29,103	106,427	112,240
Other income and (expenses)	(14,252)	(599)	1,824	1,808	922
Net interest and amortization of debt discount and expenses	(49,706)	(43,115)	(44,461)	(45,441)	(41,969)
Income (loss) before income taxes	23,620	32,134	(13,534)	62,794	71,193
Income taxes	11,259	14,473	641	25,623	28,508
Net income (loss) before cumulative effect of accounting change	12,361	17,661	(14,175)	37,171	42,685
Cumulative effect of change in method of accounting	3,045	--	--	--	--
Net income (loss)	$ 15,406	$ 17,661	$ (14,175)	$ 37,171	$ 42,685
Net income (loss) applicable to common stock	$ 14,665	$ 16,610	$ (15,500)	$ 35,576	$ 40,910
Contribution to consolidated net income (loss)					
Gas operations	$ 13,751	$ 32,214	$ 18,291	$ 30,981	$ 32,425
Financial services	1,655	(14,553)	(32,466)	6,190	10,260
	$ 15,406	$ 17,661	$ (14,175)	$ 37,171	$ 42,685
Total assets at year end	$2,943,949	$3,341,528	$3,462,974	$3,764,260	$3,724,846
Construction expenditures	$ 115,424	$ 105,595	$ 81,063	$ 104,419	$ 99,471
Cash flow, net					
From operating activities	$ 89,491	$ 86,441	$ 112,958	$ 73,985	$ 77,404
From investing activities	343,823	36,045	219,715	(33,502)	(54,984)
From financing activities	(444,613)	(102,560)	(290,353)	(29,948)	(31,447)
Net change in cash	$ (11,299)	$ 19,926	$ 42,320	$ 10,535	$ (9,027)
Capitalization at year end					
Common equity	$ 343,878	$ 329,444	$ 327,149	$ 353,254	$ 334,215
Preferred and preference stocks	8,058	15,316	22,574	29,832	37,090
Long-term debt	692,865	654,523	674,330	842,572	844,633
	$1,044,801	$ 999,283	$1,024,053	$1,225,658	$1,215,938
Common stock data					
Return on average common equity	4.4%	5.1%	(4.6)%	10.3%	12.7%
Earnings (loss) per share	$ 0.71	$ 0.81	$ (0.76)	$ 1.81	$ 2.15
Dividends paid per share	$ 0.74	$ 0.70	$ 1.05	$ 1.40	$ 1.37
Payout ratio	104%	86%	N/A	77%	64%
Book value per share at year end	$ 16.38	$ 15.99	$ 15.88	$ 17.63	$ 17.30
Market value per share at year end	$ 16.00	$ 13.75	$ 10.63	$ 13.13	$ 17.25
Market value per share to book value per share	98%	86%	67%	74%	100%
Common shares outstanding at year end (000)	20,997	20,598	20,598	20,036	19,322
Number of common shareholders at year end	21,851	22,943	24,396	24,510	24,400

SEGMENT DATA

NATURAL GAS OPERATIONS

(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
Sales	$ 503,789	$ 506,937	$ 493,647	$ 503,961	$ 475,828
Transportation	34,361	27,190	21,201	15,008	20,865
Other	955	263	50,162	69,973	72,914
Total revenue	539,105	534,390	565,010	588,942	569,607
Net cost of gas purchased	212,290	214,293	276,954	294,597	289,346
Operating margin	326,815	320,097	288,056	294,345	280,261
Expenses					
Operations and maintenance	169,921	159,954	154,370	144,809	137,112
Depreciation and amortization	55,088	52,277	47,140	43,979	38,666
Other	24,124	22,291	20,289	19,246	16,098
Operating income	$ 77,682	$ 85,575	$ 66,257	$ 86,311	$ 88,385
Contribution to consolidated net income	$ 13,751	$ 32,214	$ 18,291	$ 30,981	$ 32,425
Total assets at year end	$1,194,679	$1,103,794	$1,106,917	$1,051,698	$ 951,288
Net gas plant at year end	$ 954,488	$ 906,420	$ 854,254	$ 806,960	$ 772,080
Construction expenditures	$ 113,903	$ 102,517	$ 76,871	$ 99,634	$ 92,885
Cash flow, net					
From operating activities	$ 50,628	$ 81,457	$ 93,925	$ 55,188	$ 76,007
From investing activities	(116,246)	(103,065)	(96,588)	(91,527)	(85,572)
From financing activities	67,297	(7,792)	27,351	39,363	9,993
Net change in cash	$ 1,679	$ (29,400)	$ 24,688	$ 3,024	$ 428
Total throughput (thousands of therms)					
Sales	850,557	825,521	885,255	908,836	912,935
Transportation	725,023	651,141	509,478	459,303	420,229
Total throughput	1,575,580	1,476,662	1,394,733	1,368,139	1,333,164
Weighted average cost of gas purchased ($/therm)	$ 0.29	$ 0.26	$ 0.26	$ 0.26	$ 0.26
Customers at year end	932,000	897,000	870,000	828,000	797,000
Employees at year end	2,318	2,285	2,243	2,217	2,250
Degree days -- actual	2,470	2,261	2,470	2,448	2,239
Degree days -- ten year average	2,401	2,375	2,419	2,356	2,334

SEGMENT DATA

FINANCIAL SERVICES

(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
Interest income	$ 132,325	$ 165,678	$ 213,991	$ 255,907	$ 246,125
Interest expense	75,076	111,917	158,788	208,236	213,007
Net interest income	57,249	53,761	55,203	47,671	33,118
Provision for credit losses	(6,212)	(14,129)	(12,058)	(3,269)	(1,723)
Net interest income after credit loss provision	51,037	39,632	43,145	44,402	31,395
Income from real estate operations	100	3,023	219	10,176	23,321
Provision for estimated real estate losses	(1,010)	(18,309)	(50,696)	(4,500)	(2,106)
Net income (loss) from real estate operations	(910)	(15,286)	(50,477)	5,676	21,215
Loan fees	1,025	2,280	3,428	3,164	2,613
Other income, net	11,024	13,112	12,143	9,482	5,010
General and administrative expenses	(48,296)	(45,309)	(41,237)	(38,452)	(32,182)
Amortization of cost in excess of net assets acquired	(3,984)	(4,156)	(4,156)	(4,156)	(4,196)
Operating income (loss)	$ 9,896	$ (9,727)	$ (37,154)	$ 20,116	$ 23,855
Contribution to consolidated net income (loss)	$ 1,655	$ (14,553)	$ (32,466)	$ 6,190	$ 10,260
Total assets at year end	$1,751,419	$2,237,734	$2,356,057	$2,712,562	$2,773,558
Interest-earning assets at year end	$1,582,720	$2,022,121	$2,152,494	$2,450,629	$2,471,437
Interest-bearing liabilities at year end	$1,546,158	$2,058,663	$2,164,402	$2,494,111	$2,567,288
Cash flow, net					
From operating activities	$ 38,863	$ 4,984	$ 19,033	$ 18,797	$ 1,397
From investing activities	460,069	139,110	316,303	58,025	30,588
From financing activities	(511,910)	(94,768)	(317,704)	(69,311)	(41,440)
Net change in cash	$ (12,978)	$ 49,326	$ 17,632	$ 7,511	$ (9,455)
Average yield on loans	9.25%	10.14%	10.95%	11.06%	10.85%
Average yield on debt securities	5.93	7.15	8.74	9.05	8.99
Average yield on cash equivalents	3.09	3.54	5.60	4.81	3.98
Average earning asset yield	7.28	8.32	9.56	10.02	9.64
Average cost of deposits	3.99	5.09	6.77	7.74	7.78
Average cost of borrowings	4.69	6.95	7.35	8.71	9.33
Average cost of funds (net of capitalized and transferred interest and cost of hedging activities)	4.14	5.58	7.03	7.89	8.25
Interest rate spread	3.14	2.74	2.53	2.13	1.39
Net yield on interest-earning assets	3.15	2.70	2.47	1.87	1.30

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is comprised of two business segments; natural gas operations and financial services. The gas segment purchases, transports and distributes natural gas to residential, commercial and industrial customers in geographically diverse portions of Arizona, Nevada and California. The financial services segment (the Bank) is engaged in retail and commercial banking. The Bank's principal business is to attract deposits from the general public and make consumer and commercial loans secured by real estate and other collateral. During 1993, the gas segment contributed $13.7 million and the financial services segment contributed $1.7 million towards consolidated net income of $15.4 million.

CONSOLIDATED CAPITAL RESOURCES AND LIQUIDITY

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

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash to meet its cash requirements. General factors that could affect consolidated capital resources and liquidity significantly in future years include inflation, growth in the economy and changes in income tax laws. In addition, other factors specific to the two operating segments of the Company include: the level of natural gas prices and changes in the ratemaking policies of regulatory commissions for the gas segment; and new banking regulations, interest rate sensitivity, credit risk and competition for the financial services segment.

The Bank has continued to improve its capital position by reducing its asset base and its level of real estate investment which require higher levels of capitalization. However, in light of regulatory changes, including more stringent capital requirements, and in order to enhance the Bank's capital position, the Company did not receive cash dividends from the Bank during 1993 and does not anticipate receiving cash dividends from the Bank during 1994.

The Company's Board of Directors (the Board) will continue to evaluate the Bank's cash dividend policy subject to regulatory limitations. The Board will also continue to review the Company's investment in the Bank with an emphasis on the Bank's capital position relative to its capital requirements. The impact of any new capital requirements imposed on the Bank will be analyzed, and the appropriate strategic adjustments will be determined. The Company presently does not anticipate having to contribute additional capital to the Bank.

In May 1993, the Board of Directors declared a quarterly common stock dividend of 19.5 cents per share payable September 1, 1993, a two cents per share or 11.4 percent increase from the previous level. The increase was established in accordance with the Company's dividend policy which states that the Company will pay common stock dividends at a prudent level that is within the normal dividend payout range for its respective businesses, and that the dividend will be established at a level considered sustainable in order to minimize business risk and maintain a strong capital structure throughout all economic cycles.

Consolidated cash and cash equivalents decreased $11.3 million during 1993, the result of decreased cash flow from the financial services segment of $13 million, offset somewhat by a $1.7 million increase from the gas segment. The increase from the gas segment is mainly attributable to the proceeds from the issuance of notes payable, offset by increased construction expenditures. The decrease from the financial services segment is primarily due to repayment of fixed rate long-term borrowings and deposit outflows resulting from lower prevailing interest rates paid on deposit accounts.

Inflation, as measured by the Consumer Price Index for all urban consumers averaged 2.7 percent in 1993, 2.9 percent in 1992 and 3.1 percent in 1991. Inflation primarily impacts the Company's labor costs, materials, purchased gas costs and cost of capital investment.

The Bank's assets and liabilities consist primarily of monetary assets (cash, cash equivalents, debt securities and loans receivable) and liabilities (savings deposits and borrowings) which are, or will be, converted into a fixed amount of dollars in the ordinary course of business regardless of changes in prices.

Monetary assets lose purchasing power due to inflation, but this is offset by gains in the purchasing power of liabilities, as these obligations are repaid with inflated dollars.

In June 1993, Moody's Investors Service, Inc. upgraded the Company's unsecured debt rating from Ba2 to Ba1. In November 1993, Duff and Phelps Credit Rating Company lowered the Company's unsecured debt rating from BBB-(triple B minus) to BB+ (double B plus). Standard and Poor's Corporation affirmed the Company's unsecured long-term debt rating at BBB-during 1993.

See Capital Resources and Liquidity for separate discussions of each business segment.

RESULTS OF CONSOLIDATED OPERATIONS

1993 vs. 1992

Consolidated net income decreased $2.3 million compared to consolidated net income from the same period a year ago. The decrease resulted from an $18.5 million decrease in net income contributed by the gas segment, offset by a $16.2 million improvement in net income contributed by the financial services segment ($13.2 million before cumulative effect of accounting change). See separate discussions of each business segment for an analysis of these changes.

Operating income increased $11.7 million in 1993 from the same period a year ago. This was primarily the result of a $25.2 million decrease in the provision for estimated credit losses, offset by increases in operating expense, depreciation and general taxes.

Net interest deductions in 1993 increased $6.6 million, or 15 percent, compared to 1992. See discussion of the natural gas operations segment for an analysis of this change.

Other expenses increased $9.9 million compared to 1992. See discussion of the natural gas operations segment for an analysis of this change.

In January 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes," and applied the provisions prospectively. The cumulative effect of this change in method of accounting was an increase in net income of $3 million. See Note 14 of the Notes to Consolidated Financial Statements for additional discussion.

Earnings per share decreased 10 cents to 71 cents per share in 1993. Dividends paid increased four cents to 74 cents per share, the result of the Board's decision to increase the quarterly dividend in May 1993. Average shares outstanding increased by 131,000 shares.

1992 vs. 1991

Consolidated net income increased $31.8 million in 1992 compared to 1991 consolidated net income. The increase resulted from a $17.9 million improvement from the financial services segment and an increase of $13.9 million contributed by the gas segment. See separate discussions of each business segment for an analysis of these changes.

Operating income increased $46.7 million in 1992 compared to 1991 operating income. This was primarily the result of a $30.3 million decrease in the provision for estimated real estate and loan losses. An increase in natural gas operating margin, partially offset by higher operating expenses, depreciation and general taxes, also contributed to the increase in operating income.

Net interest deductions decreased $1.3 million, or three percent, in 1992 compared to 1991. Lower interest rates in the prevailing market and lower average short-term debt, including amounts owed to ratepayers, were the primary factors contributing to the decrease in 1992.

Earnings per share increased $1.57 to 81 cents in 1992. Dividends paid decreased 35 cents to 70 cents, the result of the Board's decision to reduce the quarterly dividend in September 1991. Average shares outstanding increased by 209,000 shares.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In November 1992, the Financial Accounting Standards Board (FASB) issued SFAS No. 112, "Employer's Accounting for Postemployment Benefits." The statement, which is effective for 1994 financial statements, requires an employer to recognize the cost of benefits provided to former or inactive employees, after employment but before retirement, on an accrual basis, as employees perform services to earn the benefit. The Company offers no financially significant postemployment benefits. As a result, adoption of SFAS No. 112 will have no material impact on the Company's financial position or results of operations.

In May 1993, the FASB issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." This statement is applicable to all creditors and to all loans, uncollateralized as well as collateralized, except for large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, loans that are measured at fair value or at lower of cost or fair value, leases, and debt securities as defined in SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 114 requires that impaired loans be measured at the present value of expected future cash flows by discounting those cash flows at the loan's effective interest rate or, in the case of collateral dependent loans such as mortgage loans, at the fair value of the collateral. A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The statement amends SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," to require a creditor to account for a troubled debt restructuring involving a modification of terms at fair value as of the date of the restructuring. The statement also amends SFAS No. 5, "Accounting for Contingencies," to clarify that a creditor should evaluate the collectibility of both contractual interest and principal of a receivable when assessing the need for a loss accrual. The provisions of the statement apply to financial statements issued for fiscal years beginning after December 15, 1994, with earlier application permitted. Retroactive restatement of previously issued annual financial statements is not permitted. The Company is analyzing its loan portfolios to determine the impact, if any, of the statement on its results of operations at the date of implementation.

In May 1993, the FASB issued SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." On December 31, 1993, the Company early adopted SFAS No. 115. See Notes 1 and 3 of the Notes to Consolidated Financial Statements for additional discussion.

NATURAL GAS OPERATIONS SEGMENT

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

As of December 31, 1993, the Company had approximately 932,000 distribution customers, of which 563,000 customers were located in Arizona, 266,000 in Nevada and 103,000 in California. Residential and commercial customers represented over 99 percent of the Company's customer base.

During 1993, the Company's customer base expanded by 13,000 customers in Arizona, 20,000 in Nevada, and 2,000 in California. These increases are largely attributable to continued population growth in the Company's service areas and represent four percent growth in the Company's customer base. Customer growth over the past three years averaged four percent annually, excluding customers obtained through the 1991 acquisition of CP National Corporation (CPN) gas properties in Nevada and southern California.

During 1993, 56 percent of operating margin was earned in Arizona, 32 percent in Nevada, and 12 percent in California. This pattern is consistent with prior years.

The Company's total gas plant in service increased from $1.1 billion to $1.3 billion, or at an annual rate of seven percent, during the three-year period ended December 31, 1993, reflecting continued customer growth within the Company's service territories.

CAPITAL RESOURCES AND LIQUIDITY

The growth of the gas segment during the last several years has required capital resources in excess of the amount of cash flow generated from operating activities (net of dividends paid). During 1993, the gas segment's capital expenditures were $114 million. Cash flow from operating activities (net of dividends) provided $34 million, or approximately 30 percent, of the required capital resources pertaining to these construction expenditures. The remainder was provided from net external financing activities. The Company received no dividends from the Bank during 1993 and is not dependent upon such dividends to meet the gas segment's cash requirements.

In December 1993, the Company borrowed $75 million in Clark County, Nevada, tax-exempt industrial development revenue bonds (IDRB). The IDRB have an annual coupon rate of 6.5 percent, are noncallable for 10 years and have a final maturity of December 2033. The proceeds from the sale of the IDRB will be used to finance certain additions and improvements to the Company's natural gas distribution and transmission system in Clark County, Nevada.

In December 1993, the Company borrowed $50 million in City of Big Bear Lake, California, tax-exempt IDRB. The IDRB bear interest at a variable rate and have a final maturity of December 2028. The proceeds from the sale of the IDRB will be used to finance certain additions and improvements to the Company's natural gas distribution and transmission system in San Bernardino County, California.

The Company currently estimates that construction expenditures for its gas segment during 1994 through 1996 will be approximately $410 million, and debt maturities and repayments, and other cash requirements are expected to approximate $190 million. Often times there are differences between estimated and actual results, because actual events and circumstances frequently do not occur as expected, and those differences may be significant.

Applications to proceed with a Paiute capacity expansion project were filed with the FERC in September and October 1993. The first component of the project will expand service to seven northern Nevada industrial gas users. The Company has executed firm long-term transportation service agreements with these industrial gas users. The estimated total cost of this component is $3.5 million. The second component of the project will include the construction of new transmission pipeline facilities which will allow the Company to serve the City of Truckee, California, an area not currently serviced by the Company, and to provide additional capacity to existing service areas. The estimated total cost of the second component of the expansion project is $35 million. Proceedings on the applications are expected to commence in early 1994. Construction is expected to take place during 1994/1995 with the projects being placed in service before the 1995/1996 heating season.

In December 1993, the Company filed an application for certification with the CPUC to provide natural gas service to the Truckee, California area. The cost of the proposed expansion is estimated at $25 million and would take approximately three years to complete. The Company must also apply for various permits and negotiate agreements before the expansion can take place. An additional 9,200 customers could potentially be added through the expansion. The Company plans to begin construction once the required regulatory approvals are received.

It is currently estimated that cash flow from operating activities (net of dividends) will generate approximately 45 percent of the gas segment's total cash requirements during 1994 through 1996. A portion of the remaining funding requirements will be provided by $117 million of IDRB funds held in trust from the 1993 Clark County, Nevada, Series A issue and 1993 City of Big Bear Lake, California, Series A issue. The remaining cash requirements, including debt refundings, are expected to be provided by external financing sources. The timing, types, and amounts of these additional external financings will be dependent on a number of factors, including conditions in the capital markets, timing and amounts of rate relief, and growth factors in

the Company's service areas. These external financings may include the issuance of both debt and equity securities, bank and other short-term borrowings, and other forms of financing.

The gas segment's costs of natural gas, labor and construction are the categories most significantly impacted by inflation. Changes to the Company's cost of gas are generally recovered through PGA mechanisms and do not significantly impact net earnings. Labor is a component of the cost of service, and construction costs are the primary component of rate base. In order to recover increased costs, and earn a fair return on rate base, general rate cases are filed by the Company, when deemed necessary, for review and approval by the ACC, PSCN and FERC. In California, general rate cases are filed every three years and attrition filings (a mechanism to adjust rates primarily for inflation) are made annually for the interim periods. Regulatory lags, that is, the time between the date increased costs are incurred and the time such increases are recovered through the ratemaking process, do, however, impact earnings as do disallowances of certain costs.

RESULTS OF NATURAL GAS OPERATIONS

1993 vs. 1992

Contribution to consolidated net income was $13.7 million, a decrease of $18.5 million from 1992, the result of increased operations and maintenance expenses, depreciation expense and general taxes partially offset by increased operating margin. An increase in net interest deductions and the recognition of the Arizona pipe replacement program disallowances also contributed to the decrease in net income.

Operating margin during 1993 increased $6.7 million, or two percent, over the same period a year ago. This increase was primarily due to increased transportation volumes, and continued customer growth in all of the Company's service areas, combined with annualized rate relief of $1.4 million effective January 1993 in its southern California jurisdiction, rate relief in its FERC jurisdiction (subject to refund) effective April 1993, and $6.5 million in its central Arizona jurisdiction effective September 1993. Weather also had a significant impact on margin.

Operating margin from weather-sensitive customers increased $1.3 million due to the rate relief in Arizona and California, and the addition of 35,000 customers system-wide during the 12-month period. However, differences in heating demand between periods negatively impacted operating margin from these customers largely offsetting the favorable occurrences.

Operating margin from other customers, primarily transportation, increased $5.4 million. Transportation volumes increased by 11 percent over the prior year as cogeneration and electric generation customers increased throughput.

Operations and maintenance expenses increased $10 million, or six percent, reflecting a general increase in labor costs, increased costs of materials and contractor services related to maintenance and other operating expenses. These increases are attributable to the incremental costs of providing service to the Company's steadily growing customer base.

Depreciation expense and other operating expenses (primarily property taxes) increased $4.6 million, or six percent. During 1993, average gas plant in service increased $105 million, or nine percent. This is attributable to capital expenditures for the continued upgrade of existing operating facilities and the expansion of the system to accommodate substantial customer growth, including the capacity expansion project on Paiute's pipeline system.

Net interest deductions increased $6.6 million, or 15 percent, in 1993. Higher average outstanding long-term debt balances with associated higher average interest rates are the primary reasons for the increased interest expense. The increase in the average long-term debt balance is attributable to the net impact of the issuances of $100 million in Series F Debentures and $130 million in tax-exempt IDRB during the second half of 1992. The Company used $80 million from the sale of the fixed-rate Series F Debentures to retire existing variable-rate indebtedness, which included $40 million of short-term borrowings. The remaining $20 million was used for general corporate purposes, including the planned expansion and replacement of utility plant. The Company used $80 million from the sale of the fixed-rate IDRB to retire existing variable-rate IDRB. The

remaining $50 million was used to finance qualifying construction expenditures in the Company's Southern Nevada Division. The Company replaced the variable-rate long-term debt instruments with fixed-rate debt instruments in order to take advantage of the low interest rate environment. While interest costs have increased in the short term, the Company believes that it will achieve overall interest cost savings in the long term.

Arizona Pipe Replacement Program Disallowances. In August 1990, the ACC issued its opinion and order (Decision No. 57075) on the Company's 1989 general rate increase requests applicable to the Company's Central and Southern Arizona Divisions. Among other things, the order stated that $16.7 million of the total capital expenditures incurred as part of the Company's Central Arizona Division pipe replacement program were disallowed for ratemaking purposes and all costs incurred as part of the Company's Southern Arizona Division pipe replacement program were excluded from the rate case and rate consideration was deferred to the Company's next general rate application, which was filed in November 1990.

In October 1990, the Company filed a Complaint in the Superior Court of the State of Arizona, against the ACC, to seek a judgement modifying or setting aside this decision. In February 1991, the Company filed a Motion for Summary Judgement in the Superior Court to seek a judgement summarily determining that Decision No. 57075 of the ACC is unreasonable and unlawful and, in accordance with that determination, modifying or setting aside Decision No. 57075 and allowing the Company to establish and collect reasonable, temporary rates under bond, pending the establishment of reasonable and lawful rates by the Commission. In June 1991, the Court affirmed the ACC's rate order without explanation or opinion. In August 1991, the Company appealed to the Arizona Court of Appeals from the Superior Court's judgement. In April 1993, Division Two of the Arizona Court of Appeals issued a Memorandum Decision affirming the ACC's opinion and order. Based on this decision, the Company filed a Motion for Reconsideration in the Court of Appeals in May 1993. The Motion for Reconsideration was denied and the Company, in July 1993, filed a Petition for Review with the Arizona Supreme Court. On February 25, 1994, immediately following the denial of the Petition for Review by the Arizona Supreme Court, the Court of Appeals issued its Mandate ordering the Company to comply with its April 1993 Memorandum Decision.

As a result of the Arizona Court of Appeals Division Two Mandate, the Company has written off $15.9 million in gross plant related to the central and southern Arizona pipe replacement program disallowances. The impact of these disallowances, net of accumulated depreciation, tax benefits and other related items, was a non-cash reduction to 1993 net income of $9.3 million, or $0.44 per share. See Note 17 of the Notes to Consolidated Financial Statements for further discussion.

1992 vs. 1991

Contribution to consolidated net income during 1992 increased $13.9 million, or 76 percent, compared to the 1991 contribution, the result of increased operating margin partially offset by increased operations and maintenance expenses, depreciation expense and general taxes. A decrease in net interest deductions also contributed to the increase in net income.

Both operating revenues and net cost of gas decreased significantly from 1991 primarily due to the termination of a nonregulated sales agreement between a subsidiary of the Company and its natural gas supplier. The termination did not materially affect operating margin. Also impacting the declines was the conversion of Paiute to a transportation-only pipeline effective in June 1991. Although margin was not affected, both revenues and cost of gas decreased because Paiute no longer provides a gas sales service.

Operating margin during 1992 increased $32 million, or 11 percent, compared to 1991. Operating margin from weather-sensitive customers increased $33.7 million during 1992. This increase was due, in part, to continued customer growth in all of the Company's service areas, combined with annualized rate relief of $4.8 million effective January 1992 in its California jurisdiction and $8.3 million effective March 1992 in its southern Arizona rate jurisdiction.

During 1992, the Company billed an average of 40,000 more customers per month than in 1991. In addition to continued customer growth within the Company's service territories, this increase in the average

number of customers was impacted by the first full year of billings of the 11,800 customers, in Henderson, Nevada, and Needles, California, acquired from CPN in late 1991.

Operating margin from weather-sensitive customers was also favorably impacted by differences in heating demand between years, especially during December 1992 as compared to December 1991. Although total degree days (a measure of relative coldness which is used as an indicator of natural gas usage) were slightly lower in 1992, degree days in December 1992 were 20 percent greater than in December 1991. The Company experienced colder-than-normal weather in heating demand throughout its service territories during December 1992, whereas warmer-than-normal weather occurred during December 1991.

Operations and maintenance expenses increased $5.6 million during 1992, or four percent, reflecting a general increase in labor costs, and increased costs of materials and contractor services related to maintenance. These increases were attributable to the incremental costs of providing quality service to the Company's steadily growing customer base.

Depreciation expense and other expenses (primarily property taxes) increased $7.1 million during 1992, or 11 percent. During 1992, average gas plant increased $80 million, or seven percent. This was attributable to capital expenditures for the continued upgrade of existing operating facilities and the expansion of the system to accommodate substantial customer growth, including the capacity expansion project on Paiute's pipeline system.

Net interest deductions decreased $1.3 million, or three percent, in 1992 compared to 1991. Lower interest rates in the prevailing market and lower average short-term debt, including amounts owed to ratepayers, were the primary reasons for the decrease in 1992.

RATES AND REGULATORY PROCEEDINGS

California

Effective January 1, 1993, the Company received approval of an attrition allowance to increase annual margin by $1.4 million in its southern and northern California rate jurisdictions. Effective January 1, 1994, the Company received approval of an attrition allowance to increase annual margin by $1.5 million for its southern and northern California rate jurisdictions. Pursuant to the CPUC rate case processing plan, the Company filed a general rate application in January 1994 to increase annual margin by $1.1 million for its southern and northern California rate jurisdictions effective January 1995.

Nevada

In March 1993, the Company filed general rate cases with the PSCN seeking approval to increase revenues by $9.4 million, or eight percent, annually for its southern Nevada rate jurisdiction and $3.3 million, or nine percent, annually for its northern Nevada rate jurisdiction. The Company's last general rate cases were September 1987 for southern Nevada and December 1988 for northern Nevada. Since that time, general rate cases had not been necessary in these jurisdictions primarily because of ongoing customer growth and Company initiated cost containment measures. The Company was seeking recovery of increased operating costs in these ratemaking areas and the restructuring of its tariffs and rates to reflect current changes within the natural gas industry. The PSCN issued its rate order in October 1993 and ordered the Company to reduce general rates by $648,000 in southern Nevada and authorized a $799,000 increase in northern Nevada. The primary reasons for the difference between the Company's requested annual revenue increases and the amounts authorized by the PSCN included lower authorized returns on rate base and lower authorized depreciation expenses. The Company filed a motion for reconsideration and rehearing on several issues following the issuance of the rate order. In January 1994, the PSCN granted the rehearing of certain rate case issues. A hearing on these issues is expected to commence in the second quarter of 1994. The resolution of these issues is not expected to have a material effect on the Company's results of operations.

Arizona

Current Arizona Rate Cases. In October 1993, the Company filed a rate application with the ACC seeking approval to increase revenues by $10 million, or 9.3 percent, annually for its southern Arizona jurisdiction. The Company is seeking to recover increased operating costs and obtain a return on construction expenditures, and has proposed tariff restructurings which are consistent with the tariff modifications authorized by the ACC in its August 1993 central Arizona decision. Hearings on the application are to commence in June 1994. A final rate order from the ACC is expected in the fourth quarter of 1994.

In October 1992, the Company filed a rate application with the ACC seeking approval to increase revenues by $15.9 million, or 7.9 percent, annually for its central Arizona jurisdiction. The Company sought recovery of increased operating costs as well as modification and simplification of its tariff to accommodate changes occurring within the industry as a result of open access transportation. In August 1993, the ACC ruled on this case and granted the Company a $6.5 million annual revenue increase for its central Arizona rate jurisdiction, effective September 1993. The primary reason for the difference between the Company's $15.9 million requested annual revenue increase and the $6.5 million annual revenue increase granted in the opinion and order was a lower authorized return on rate base. The ACC also reduced the prior rate case disallowance related to the Company's capital expenditures for the Central Arizona Division pipe replacement program from $16.7 million to $14.6 million. The revision was based on lower actual costs incurred under the program than were previously projected. See Note 17 of the Notes to Consolidated Financial Statements for further discussion regarding pipe replacement program disallowances.

Arizona Gas Procurement. During 1991, the ACC Staff conducted a comprehensive audit of the Company's natural gas procurement practices. The audit covered the period January 1986 through November 1990. Issues addressed included a review of the Company's contractual arrangement with a subsidiary and its gas supplier for the acquisition of natural gas from nontraditional sources, two-tiered gas cost allocation methods, unaccounted-for gas and a review of the recovery of take-or-pay settlement costs. In July 1992, the ACC issued its order directing the Company to refund through its PGA mechanism $5.7 million of profits earned through the contractual arrangement with its subsidiary and its gas supplier. The Company made the required refunds in 1992.

In July 1992, the Company filed a motion with the ACC for reconsideration of the gas procurement decision. The ACC failed to act on this motion within the specified 20 days, and it was, therefore, deemed denied by operation of law. In September 1992, the Company filed a Notice of Appeal with the Arizona Court of Appeals. In January 1994, the Arizona Court of Appeals issued an opinion affirming the decision of the ACC. The Company decided not to seek a review of the decision in the Arizona Supreme Court.

FERC

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

In December 1992, Paiute filed tariff revisions to comply with Order No. 636. The filing, among other things, restructured rates to reflect a new mandatory method of pipeline rate design. The FERC accepted Paiute's filing in May 1993, but ordered Paiute to submit additional compliance filings, which were filed through October 1993. By order issued October 1993, the FERC approved Paiute's restructured tariff effective November 1993. The restructured rates are not expected to have a significant impact on the Company's results of operations.

TAKE-OR-PAY

At December 31, 1993, the Company had $4.3 million remaining in regulatory asset accounts for direct bill take-or-pay (TOP) costs. These accounts included $3.3 million related to Arizona rate jurisdictions and

$1 million related to the southern Nevada jurisdiction. The Company received authorization from the ACC to recover the Arizona portion of TOP costs from all Arizona jurisdictional customers effective June 1991 over periods of time not to exceed six years. In January 1992, authority was granted by the PSCN to begin recovering the southern Nevada portion of TOP costs, effective February 1992, over negotiable periods of time. Management expects full recovery of the Arizona and southern Nevada approved TOP costs.

FINANCIAL SERVICES SEGMENT

The Bank recorded net income of $6.6 million for the year ended December 31, 1993 compared to net losses of $9.8 million and $28.4 million for the years ended December 31, 1992 and 1991, respectively. The Bank's 1993 net income is comprised of $7.9 million from core banking operations and a $3 million gain from the change in method of accounting for income taxes. These items were partially offset by a $1 million net loss, after tax, from the sale of the Bank's Arizona branch operations (the Arizona sale) and a $3.4 million net loss, after tax, from goodwill amortization and noncore banking operations, including real estate development activities. Income from core banking operations improved in 1993 as a result of lower provisions for estimated credit losses and an improved net interest margin.

In August 1993, the Bank sold its Arizona branch operations to World Savings and Loan Association (World) of California. The Bank sold $334 million of MBS to effect the sale of approximately $321 million of Arizona branch deposits. The final disposition of the Bank's Arizona branch operations resulted in an after-tax loss of approximately $1 million. See Long Term Strategic Business Plan section of MD&A and Note 2 of the Notes to Consolidated Financial Statements for further discussion.

FINANCIAL AND REGULATORY CAPITAL

At December 31, 1993, stockholder's equity totaled $177 million. Stockholder's equity increased $15.4 million compared to December 31, 1992, as a result of net income and unrealized gains, after tax, on debt securities available for sale. The Bank has not paid any cash dividends to the Company since 1989. By regulation, the Bank is restricted from paying dividends to the Company in excess of 75 percent of its net income over the preceding four quarters. In order to continue to build its capital position, the Bank does not anticipate paying cash dividends to the Company during 1994.

During 1993, the Bank's regulatory capital levels and ratios increased under each of the three capital standards. The increase in capital levels resulted from net income, unrealized gains, after tax, on debt securities available for sale, and lower levels of real estate investments and goodwill which require deductions from capital. The Arizona sale enhanced the Bank's capital ratios by lowering its total asset base and eliminating $5.9 million of goodwill. The Bank's regulatory capital and resulting ratios are summarized as follows (thousands of dollars):

	DECEMBER 31, 1993			DECEMBER 31, 1992		
	TANGIBLE	CORE	RISK-BASED	TANGIBLE	CORE	RISK-BASED
Regulatory capital ratio..................	6.39%	7.14%	14.92%	3.78%	4.78%	11.50%
Minimum required ratio...	1.50	3.00	8.00	1.50	3.00	8.00
Excess...................	4.89%	4.14%	6.92%	2.28%	1.78%	3.50%
Regulatory capital.......	$ 107,442	$ 120,057	$ 130,587	$ 81,614	$ 103,196	$ 115,115
Minimum required capital................	25,229	50,459	70,031	32,375	64,749	80,088
Excess...................	$ 82,213	$ 69,598	$ 60,556	$ 49,239	$ 38,447	$ 35,027
Asset base..............	$1,681,952	$1,681,952	$ 875,387	$2,158,313	$2,158,313	$ 1,001,094

As set forth above and discussed in Note 2 of the Notes to Consolidated Financial Statements, as of December 31, 1993 and 1992, the Bank exceeded all three minimum capital requirements (tangible, core and risk-based) under the regulatory capital regulations issued by the OTS. These regulatory capital regulations contain two transition rules, among others, that have impacted the Bank's business strategies.

The first transition rule covers certain of the Bank's residential real estate development investments. The rule was designed to encourage the phase-out of certain activities which are not permissible for national banks and thus, requires the Bank to deduct from its assets and capital a percentage of its investment in real estate development activities as measured against the level of investment at April 12, 1989. At December 31, 1993, the Bank was required to deduct $478,000 from its capital base as a result of these rules. The Bank applied and received approval for use of a delayed phase-out schedule which extends until July 1, 1996, the date for which all investments in real estate development activities made subsequent to April 12, 1989 must be fully deducted from assets and capital, thus requiring dollar for dollar capitalization.

The second transition rule requires an immediate deduction of "nonqualifying" goodwill and a phased deduction for qualifying "supervisory" goodwill. At December 31, 1993, the Bank had $69.5 million of goodwill, of which $42.5 million was nonqualifying. The remaining $27 million of qualifying supervisory goodwill must be phased out by January 1, 1995. Effective January 1, 1992, qualifying supervisory goodwill may be included in regulatory capital in an amount limited to 1.0 percent of tangible assets. This percentage limit decreased to 0.75 percent effective January 1, 1993, 0.375 percent on January 1, 1994 and will reach zero percent on January 1, 1995. Due to this limitation, the Bank is required to deduct an additional $6.3 million of supervisory goodwill from regulatory capital on January 1, 1994. See Financial Services Activities -- Regulation for further discussion.

At December 31, 1993, under fully phased-in capital rules applicable to the Bank on July 1, 1996, the Bank exceeded its fully phased-in tangible, core and risk-based capital requirements by $81.8 million, $56.6 million, and $43.1 million, respectively.

In December 1991, FDICIA was enacted into law. FDICIA requires federal banking regulators to take prompt corrective action if an institution fails to satisfy minimum capital requirements. Under FDICIA, capital requirements include a leverage limit, a risk-based capital requirement, and any other measure of capital deemed appropriate by the federal banking regulators for measuring the capital adequacy of an insured depository institution. All institutions, regardless of their capital levels, are restricted from making any capital distribution or paying management fees while not in capital requirement compliance or if such payment would cause the institution to fail to satisfy minimum levels for any of its capital requirements.

Insured institutions are divided into five capital categories -- (1) well capitalized, (2) adequately capitalized, (3) undercapitalized, (4) significantly undercapitalized, and (5) critically undercapitalized. The categories are defined as follows:

CATEGORY	RISK-BASED CAPITAL RATIO	CORE CAPITAL TO RISK-BASED ASSETS	CORE CAPITAL RATIO
Well capitalized......................	*10%	*6%	*5%
Adequately capitalized................	*8% **10%	*4% **6%	*4% **5%
Undercapitalized......................	*6% **8%	*3% **4%	*3% **4%
Significantly undercapitalized........	**6%	**3%	**3%

* Greater than or equal to.
** Less than.

Critically undercapitalized if tangible equity to total assets ratio less than or equal to 2%.

Institutions must meet all three capital ratios in order to qualify for a given category. At December 31, 1993, the Bank was classified as "well capitalized."

The Bank's capital ratios can be enhanced by certain actions, including the retention of earnings, the reduction of the asset base on which the requirements are calculated, the reduction of goodwill, the reduction of the level of real estate investments which are required to be deducted from capital and capital contributions from the Company. Management has pursued all of these alternatives in order to increase its capital ratios.

During 1993, the Bank achieved "well capitalized" status through a combination of increased capital from net earnings and unrealized gains from debt securities, and the reduction of assets and goodwill through the Arizona sale. It is management's intent to maintain and improve the level of capital through earnings and the stabilization of the asset base.

During 1992, management pursued a strategy of reducing the size of the Bank's asset base through a combination of sales and portfolio attrition resulting from payoff activity in the loan and MBS portfolios. The Bank sold $241 million of loans and received $327 million in principal repayments. Additionally, the Bank sold $275 million of debt securities and received $294 million in principal repayments. These were partially offset by new loan originations of $517 million and debt security purchases of $546 million. Additionally, the Company contributed $10 million to the Bank in October 1991 and $10 million in February 1992, in exchange for common stock of the Bank.

Regulatory Developments. The Office of the Comptroller of the Currency (OCC), which is the primary regulator for national banks, has adopted a final rule increasing the leverage ratio requirements for all but the most highly rated national banks. The OTS is required to issue capital standards for savings institutions that are no less stringent than those applicable to national banks. Accordingly, the OTS has proposed to amend its capital requirements so that all but the most highly rated savings institutions will be required to maintain a core capital ratio between four percent and five percent. Although this regulation has not yet been issued, FDICIA allows regulators to establish individualized capital requirements for institutions as deemed appropriate. No such individualized capital requirement has been imposed on the Bank.

The OTS has issued a regulation which adds a component to an institution's risk-based capital calculation in 1994. The regulation will require a reduction of an institution's risk-based capital by 50 percent of the decline in the institution's NPV exceeding two percent of assets under a hypothetical 200 basis point increase or decrease in market interest rates. Based upon management's estimate of its IRR exposure, the Bank will not be subjected to a reduction from its risk-based capital requirement, using data as of December 31, 1993, as a result of implementation of this standard. The federal banking regulators have also proposed a similar regulation which may result in a more stringent capital requirement for IRR than the current OTS regulations. FIRREA requires that the OTS regulations be no less stringent than the federal banking regulators, therefore, the impact of this proposed regulation on the Bank is unknown at this time.

On December 31, 1993, the Company implemented SFAS No. 115. See Note 1 of the Notes to Consolidated Financial Statements for further discussion. Under SFAS No. 115, unrealized holding gains and losses, net of tax, on securities available for sale are recorded as an adjustment to stockholder's equity. Under current OTS regulations, this component of equity is included as regulatory capital under all three capital measures. The OTS and other Federal banking regulators are considering issuing regulations regarding the future treatment of this component in regulatory capital. Possible alternatives discussed include exclusion of this component from core and tangible capital, inclusion of only unrealized losses in regulatory capital, or excluding this component entirely from regulatory capital. The Bank will review the impact of any new capital requirements when they are issued, and appropriate strategic adjustments will be considered.

At December 31, 1993, the Bank has included $8.8 million in regulatory capital as a result of implementation of this standard. Because unrealized gains and losses on debt securities are highly correlated to changes in interest rates, this component of equity may be volatile regardless of regulatory treatment. The Bank estimates that a 200 basis point increase in interest rates would decrease this component of capital by approximately $11 million based on the December 31, 1993 debt securities available for sale portfolio.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity is defined as the Bank's ability to have sufficient cash reserves on hand and unencumbered assets, which can be sold or utilized as collateral for borrowings, at a reasonable cost, or with minimal losses. The Bank's debt security portfolio provides the Bank with adequate levels of liquidity so that the Bank is able to meet any unforeseeable cash outlays and regulatory liquidity requirements.

The Bank's primary sources of funds are earnings from its operations, deposits, FHLB borrowings, securities sold under agreements to repurchase, other borrowings and payments on loans and MBS. These sources are expected to generate sufficient liquidity for the Bank.

Potential liquidity demands may include funding loan commitments, deposit withdrawals, and other funding needs. In order to achieve sufficient liquidity for the Bank without taking a large liquid or illiquid

position and avoiding funding concentrations, the Bank has taken the following actions: 1) maintaining lines of credit with authorized investment bankers; 2) managing the debt security portfolio to ensure that maturities meet liquidity needs; 3) limiting investment and lending activities at certain times and 4) establishing maximum borrowing limits for meeting liquidity needs.

The OTS has issued regulations regarding liquidity requirements which state that the Bank is required to maintain an average daily balance of liquid assets equal to at least five percent of its liquidity base (as defined in the OTS Regulations) during the preceding calendar month. The Bank is also required to maintain an average daily balance of short-term liquid assets equal to at least one percent of its liquidity base as defined in the regulations. Throughout 1993, the Bank exceeded both regulatory liquidity requirements. For the month of December the Bank's liquidity ratios were 18 percent and ten percent, respectively. The Bank's liquidity ratio is substantially higher than the regulatory requirement due to the Bank's increasing level of transaction accounts. The regulatory requirement is aimed at a more traditional savings institution which has a higher level of certificate of deposit accounts versus transaction accounts.

The Bank's long-term Strategic Business Plan, as further discussed below, focuses on reducing the Bank's cost of funds by primarily increasing the Bank's retail deposit base through additional transaction accounts which carry lower interest costs and allow for customer cross-sale opportunities. The Bank's retail deposit base decreased by $410 million during 1993 from $1.6 billion at December 31, 1992, of which $61.1 million related to transaction accounts and $349 million to certificate of deposit accounts of these amounts. The Arizona sale reduced transaction accounts by $40.3 million and certificate of deposit accounts by $281 million. Transaction accounts also decreased $31 million due to the Bank utilizing a third party to issue official checks (cashiers checks and money orders). Excluding the Arizona sale and the aforementioned official checks, transaction accounts increased $10.2 million and certificate of deposit accounts decreased $67.5 million for a net decrease of $57.3 million, which was due to disintermediation as the result of the low interest rate environment that existed during 1993 and the elimination of brokered certificate of deposits of $6.9 million.

In addition, during 1993 the Bank repaid fixed rate long-term borrowings, including $10 million of FHLB advances, $25 million of unsecured senior notes, $10.4 million of notes payable and $29.5 million of flexible reverse repurchase agreements. The overall effect of the Arizona sale and the repayment of such borrowings on the Bank's cost of funds was an improvement of 149 basis points.

It is the responsibility of the Investment Committee to establish adequate levels of liquidity and unencumbered assets to meet the day-to-day operational needs of the Bank and to meet the regulatory requirements for liquidity. The daily operational liquidity needs of the Bank in 1993 were primarily met through $624 million of repayments on loans and debt securities, $65 million of borrowings from the FHLB and $78.4 million of loan sales. In order to fund the transfer of deposit balances involved with the Arizona sale, the Bank sold $334 million in debt securities for a gain of $7.4 million ($4.9 million after-tax).

The Bank's borrowing capacity is a function of the availability of its readily marketable, unencumbered assets and the Bank's financial condition. Secured borrowings may be obtained from the FHLB in the form of advances and from authorized investment bankers in the form of reverse repurchase agreements. At December 31, 1993, the Bank maintained in excess of $281 million of unencumbered assets, with a market value of $282 million, which could be borrowed against, or sold, to increase liquidity levels.

The primary management objective of the investment portfolio is to invest the excess funds of the Bank. This includes ensuring that the Bank maintains adequate levels of liquidity so it is able to meet any unforeseeable cash outlays. This task is accomplished by active investment in securities that provide the greatest return, for a given price and credit risk, in order to maximize the total return to the Bank.

The secondary management objective of the investment portfolio is to serve as the Bank's primary short-term tool to manage the IRR exposure of the institution. The Bank's asset/liability management objective generally requires a trade-off between achieving the highest profitability in terms of net interest income, while maintaining acceptable levels of IRR. To accomplish these objectives, management can change the composition of the investment portfolio allowing management to quickly adjust the IRR exposure of the Bank, and take advantage of interest rate changes in the markets. The tables in Note 3 of the Notes to Consolidated

Financial Statements depict the amortized cost, estimated fair values, contractual maturity, and yields of the debt security portfolios.

As of December 31, 1993, the Bank's debt security portfolio was composed of securities with a fair value of $664 million (amortized cost of $652 million) with a yield of 6.17 percent compared to a debt security portfolio with a fair value of $1.2 billion (which was $11 million greater than the amortized cost) yielding 6.52 percent at December 31, 1992.

During 1993, the debt security portfolio balance declined by $500 million. Purchases of debt securities totaled $113 million and sales totaled $361 million. The two primary reasons for the decline in the portfolio were: 1) the funding of the Arizona sale and 2) the significant increase in debt security prepayment rates, which provided funding for the increasing loan production and deposit run-off experienced during most of 1993.

The Bank has historically been a portfolio investor with most purchases and securitizations maintained within the investment portfolio. During 1992, the Bank restructured its balance sheet and changed its accounting policy as part of a long term strategic plan to minimize IRR. As a result of this strategy, the Bank sold $241 million of fixed-rate debt securities and changed its accounting policy to designate all fixed-rate debt securities with maturities greater than or equal to 25 years as available for sale.

The Bank's assets and liabilities consist primarily of monetary assets (cash, cash equivalents, debt securities and loans receivable) and liabilities (savings deposits and borrowings) which are, or will be converted into a fixed amount of dollars in the ordinary course of business regardless of changes in prices. Monetary assets lose purchasing power due to inflation, but this is offset by gains in the purchasing power of liabilities, as these obligations are repaid with inflated dollars.

The level and movement of interest rates is of much greater significance. Inflation is but one factor that can cause interest rate volatility and changes in interest levels. The results of operations of the Bank are dependent upon its ability to manage such movements. See Risk Management -- Interest Rate Risk Management herein for additional discussion.

RISK MANAGEMENT

The financial services industry has certain risks. In order to be successful and profitable, in an increasingly volatile and competitive marketplace, the Bank must accept some forms of risk and manage these risks in a safe and sound manner. Generally, transactions that the Bank enters into require the Bank to accept some measure of credit and IRR, and utilize equity capital. The Bank has established certain guidelines in order to manage the Bank's assets and liabilities. These guidelines will help ensure that the risks taken and consumption of capital are optimized to achieve maximum profitability, while minimizing risks to equity and the federal deposit insurance fund.

Interest Rate Risk Management. IRR management is a complex and evolving financial management discipline which represents an ongoing challenge for financial institutions. Changes in the Bank's IRR exposure affect the current market values of the Bank's loan, debt securities, and deposit portfolios, as well as the Bank's future earnings. The level of the Bank's IRR exposure can also affect the Bank's regulatory capital requirements.

IRR can result from (a) timing differences in the maturity and/or repricing of the Bank's assets, liabilities, and off-balance sheet contracts; (b) the exercise of options embedded in the Bank's financial instruments and accounts, such as prepayments of loans before scheduled maturity, caps on the amounts of interest rate movement permitted for adjustable-rate loans, and withdrawals of funds on deposit with and without stated terms to maturity; and (c) differences in the behavior of lending and funding rates, referred to as basis risk. The role of the Bank's asset/liability management function is to prevent the erosion of the Bank's earnings and equity capital due to interest rate fluctuations.

The Bank's Board of Directors (BOD) has established certain guidelines to prudently manage the exposure of the Bank's net interest income, net income, and market value of portfolio equity (MVPE) or NPV

to interest rate fluctuations. The guidelines include limits on the Bank's overall IRR exposure, methods of accountability and specific reports to be provided to it by management for periodic review, and established acceptable activities and instruments to manage IRR. The BOD has delegated responsibility for IRR measurement and management to the Bank's Asset/Liability Management Committee (ALCO).

To enable it to measure and manage the Bank's IRR, ALCO has developed and maintains an IRR simulation model. The model enables the Bank to measure IRR exposure using various assumptions and interest rate scenarios, and to incorporate alternative strategies for the reduction of IRR exposure. ALCO measures the Bank's IRR using several methods to provide a comprehensive view of IRR from various perspectives. These methods include projection of current MVPE and future periods' net interest income after rapid and sustained interest rate movements, static analysis of repricing and maturity mismatches, or gaps, between assets and liabilities, and analysis of the size and sources of basis risk. Each of these analyses is a tool for the assessment of the Bank's IRR, and is reviewed independently as well as collectively by ALCO to accurately assess the Bank's IRR exposure. The analyses are also used as a basis for the formulation of strategies to reduce the Bank's IRR exposure where and as needed, thus ensuring that the Bank remains within BOD limits for overall IRR exposure.

Static gap analysis measures the difference between financial assets and financial liabilities scheduled and expected to mature or reprice within a specified time period. The gap for that period is positive when repricing and maturing assets exceed repricing and maturing liabilities. The gap for that period is negative when repricing and maturing liabilities exceed repricing and maturing assets. A positive or negative cumulative gap indicates in a general way how the Bank's net interest income should respond to interest rate fluctuations. A positive cumulative gap for a period generally means that rising interest rates would be reflected sooner in financial assets than in financial costing liabilities, thereby increasing net interest income over that period. A negative cumulative gap for a period would produce an increase in net interest income over that period if interest rates declined.

At December 31, 1993, the Bank had financial assets of $1.7 billion with a weighted average yield of 6.83 percent, and financial liabilities of $1.5 billion with a weighted average rate of 3.72 percent. The Bank's cumulative one-year static gap was a negative $39.4 million, or two percent of financial assets. The Bank's financial assets and financial liabilities are presented according to their frequency of repricing, and scheduled and expected maturities in the following table (thousands of dollars):

STATIC GAP AS OF DECEMBER 31, 1993

	% OF TOTAL	TOTAL BALANCE	YIELD/ RATE	REPRICING SENSITIVITY AT DECEMBER 31, 1993 WITHIN 1 YEAR	1-5 YEARS	OVER 5 YEARS
FINANCIAL ASSETS						
Cash and cash equivalents(1)	7.2%	$ 119,215	1.74%	$ 119,215	$ --	$ --
Debt securities available for sale(2)	36.1	595,726	6.09	475,299	116,075	4,352
Debt securities held to maturity(2)	4.2	69,660	6.85	61,046	7,906	708
Loans receivable:						
Loans receivable held for sale	1.2	20,051	12.22	20,051	--	--
Adjustable-rate real estate(3)						
Construction and land	2.0	33,376	7.83	33,376	--	--
Other real estate	12.1	199,757	7.39	186,350	13,407	--
Fixed-rate real estate(4)	27.0	446,645	8.03	96,127	217,880	132,638
Consumer, commercial and all other(4)	9.2	151,050	8.88	76,013	54,632	20,405
FHLB stock(5)	1.0	16,501	3.50	16,501	--	--
Total financial assets	100.0%	1,651,981	6.83%	1,083,978	409,900	158,103
Nonfinancial assets		99,438				
Total Assets		$1,751,419				
FINANCIAL LIABILITIES						
Deposits:						
Interest-bearing demand and money market deposits(6)	21.0%	$ 324,011	2.37%	324,011	--	--
Certificates of deposit(1)	47.4	732,263	4.42	466,189	239,224	26,850
Savings deposits(6)	5.6	86,781	2.63	86,781	--	--
Noninterest-bearing demand deposits(7)	4.2	64,797	--	24,722	7,227	32,848
Borrowings:						
Advances from FHLB(1)	4.5	71,000	4.70	--	71,000	--
Securities sold under agreements to repurchase(8)	16.8	259,041	4.31	229,000	30,041	--
Other(1)	0.5	8,265	8.91	130	8,135	--
Total financial liabilities	100.0%	1,546,158	3.72%	1,130,833	355,627	59,698
Impact of hedging-fixed(9)		--		7,500	--	(7,500)
Nonfinancial liabilities		28,318				
Stockholder's equity		176,943				
Total liabilities and stockholder's equity		$1,751,419				
Maturity gap				$ (39,355)	$ 54,273	$ 90,905
Cumulative gap				$ (39,355)	$ 14,918	$105,823
Cumulative gap as a percent of financial assets				(2.4)%	0.9%	6.4%

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Note: Loans receivable exclude allowance for credit losses, discount reserves, deferred loan fees, and accrued interest on loans.

Static Gap Assumptions as of December 31, 1993

(1) Based on the contractual maturity or term to next repricing of the instrument(s).

(2) Maturity sensitivity is based upon characteristics of underlying loans. Portions represented by adjustable-rate certificates are included in the "Within 1 Year" category, as underlying loans are subject to interest rate adjustment at least semiannually or annually. Portions represented by fixed rate loans are based on contractual maturity, and projected repayments and prepayments of principal.

(3) Adjustable-rate loans are included in each respective category depending on the term to next repricing and projected repayments and prepayments of principal.

(4) Maturity sensitivity is based upon contractual maturity, and projected repayments and prepayments of principal.

(5) FHLB stock has no contractual maturity. The Bank receives quarterly dividends on all shares owned and the balance is therefore included in the "Within 1 Year" category. The amount of such dividends is not fixed, and varies quarterly.

(6) Interest-bearing demand, money market deposits, and savings deposits may be subject to daily interest rate adjustment and withdrawal on demand, and are therefore included in the "Within 1 Year" category.

(7) Noninterest-bearing demand deposits have no contractual maturity, and are included in each repricing category based on the Bank's historical attrition of such accounts.

(8) Floating-rate reverse repurchase agreements are included in the "Within 1 Year" category. Principal repayments of flexible reverse repurchase agreements are based on the projected timing of construction or funding of the underlying project.

(9) Hedging consisted of a fixed interest rate swap as of December 31, 1993.

While the static gap analysis is a useful asset/liability management tool, it does not fully assess IRR. Static gap analysis does not address the effects of customer options (such as early withdrawal of time deposits, withdrawal of deposits with no stated maturity, and mortgagors' options to prepay loans) and Bank strategies (such as delaying increases in interest rates paid on certain interest-bearing demand and money market deposit accounts) on the Bank's net interest income, net income, and MVPE. In addition, the static gap analysis assumes no changes in the spread relationships between market rates on interest-sensitive financial instruments (basis risk), or in yield curve relationships. Therefore, a static gap analysis is only one tool with which to analyze IRR, and must be reviewed in conjunction with other asset/liability management reports.

Using the Bank's IRR simulation model, management also estimates the effects of rapid and sustained interest rate movements on the Bank's current MVPE. Beginning in 1994, the OTS will use a similar methodology to determine the Bank's IRR component of risk-based capital, if the Bank's IRR exposure is above the threshold established by the regulation. See Financial and Regulatory Capital -- Regulatory Developments for further discussion. The following table presents management's estimate of the Bank's MVPE after a hypothetical, instantaneous 200 basis points (bp) change in market interest rates at December 31, 1993 (thousands of dollars):

CHANGE IN INTEREST RATES	ESTIMATED MVPE
+200 bp	$ 106,051
0	$ 127,207
-200 bp	$ 119,518

The financial instruments approved by the BOD to manage the Bank's IRR exposure in its balance sheet include the Bank's debt security portfolio, interest rate swaps, interest rate caps, interest rate collars, interest rate futures, and put and call options. These financial instruments provide effective methods of reducing the impact of changes in interest rates on the market values of and earnings provided by the Bank's assets and liabilities. The Bank also actively manages its retail and wholesale funding sources to minimize its cost of

funds and provide stable funding sources for its loan and investment portfolios. Management's use of particular financial instruments is based on a complete analysis of the Bank's current IRR exposure and the projected effect of any proposed strategy on the Bank's IRR exposure. In addition, to manage the IRR exposure associated with the Bank's held for sale loan portfolio, the Bank utilizes forward sale commitments.

Credit Risk Management. One of the Bank's primary businesses is to make and acquire loans secured by residential and other real estate to enable borrowers to purchase, refinance, construct and improve such property. These activities entail potential credit losses, the size of which depends on a variety of economic factors affecting borrowers and the real estate collateral. The Bank continues to emphasize consumer and commercial loan originations which are generally secured by non-real estate-based collateral. During 1993, consumer loans increased 67 percent to $137 million. While the Bank has adopted underwriting guidelines and credit review procedures to minimize credit losses, some losses will inevitably occur. Periodic reviews are made of the Bank's assets in an attempt to identify and deal appropriately with potential credit losses at an early date. The Bank continues its efforts to diversify its asset portfolio, thereby reducing its credit risk.

The Bank's Credit Administration Department is responsible for ensuring adherence to the Bank's approved lending policies and procedures, including proper approvals, timely completion of periodic asset reviews, early identification of problem loans, reviewing the quality of underwriting and appraisals, tracking trends in the Bank's asset quality and evaluating the adequacy of the Bank's allowance for losses. To further control its credit risk, the Bank monitors and manages its credit exposure in portfolio concentrations. Portfolio concentrations, including collateral types, industry groups, geographic locations, and loan types are assessed and the exposure is managed through the establishment of limitations of aggregate exposures. The Bank has also strengthened its underwriting guidelines, performs periodic credit reviews, and established limitations on loans to one borrower which are more stringent than regulatory requirements.

As part of the regular asset review process, management reviews factors relating to the possibility and magnitude of prospective loan and real estate losses, including historical loss experience, prevailing market conditions and classified asset levels. The Bank is required to classify assets and establish prudent valuation allowances in accordance with OTS regulations.

The Bank's Credit Administration Department is also responsible for the maintenance of a comprehensive risk-rating system used in determining classified assets and allowances for estimated credit losses. The system involves an ongoing review of all assets containing an element of credit risk including loans, real estate and investment securities. The review process assigns a risk rating to each asset reviewed based upon various credit criteria.

If the review indicates that it is probable that some portion of an asset will result in a loss, the asset is written down to its expected recovery value. An allocated general valuation allowance is established for each asset reviewed which has been assigned a risk classification. The allowance is determined, subject to certain minimum percentages, based upon probability of default (in the case of loans), estimated ranges of recovery, and probability of each estimate of recovery value. An allowance for estimated credit losses on classified assets not subject to a detailed review is established by multiplying a percentage by the aggregate balances of the assets outstanding in each risk category. The percentages assigned increase based on the degree of risk and reflect management's estimate of potential future losses from assets in a specific risk category. With respect to loans not subject to specific reviews, principally single-family residential and consumer loans, the allowance is established based upon historical loss experience. Additionally, an unallocated allowance is established to reflect economic conditions that may negatively affect the portfolio in the aggregate.

The Bank has also established certain guidelines and criteria in order to manage the credit risk of investment security portfolios, including concentration limits, credit rating and geographic distribution requirements. The following table presents the credit quality of debt security portfolios:

RATING:	AT DECEMBER 31, 1993 PERCENTAGE OF PORTFOLIO	AT DECEMBER 31, 1992 PERCENTAGE OF PORTFOLIO
AAA	87.6%	80.1%
AA	5.9	13.4
A	1.8	3.0
BBB	.2	--
Other	4.5	3.5
Total	100.0%	100.0%

The other category primarily includes the Bank's investment in the privately issued MBS classified as substandard, as further explained in this section.

OTS regulations require the Bank to classify certain assets into one of three categories -- "substandard," "doubtful" and "loss." An asset which does not currently warrant classification as substandard but which possesses weaknesses or deficiencies deserving close attention is considered a criticized asset and is designated as "special mention." The Bank designated $27.6 million of its assets as "special mention" at December 31, 1993.

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

	DECEMBER 31,				
	1993	1992	1991	1990	1989
Substandard assets:					
Loans	$37,886	$55,727	$ 66,839	$25,965	$ 9,432
Foreclosed real estate (net)	9,707	24,488	14,875	10,363	12,174
Loans to facilitate	--	80	760	357	88
Real estate held for investment	2,166	1,616	24,587	3,111	--
Investments	29,509	--	--	17,857	22,300
Doubtful assets	--	--	--	--	2,225
Loss assets	--	--	--	--	28
Total	$79,268	$81,911	$107,061	$57,653	$46,247
Ratio of classified assets to total assets	4.53%	3.66%	4.54%	2.13%	1.67%

The Bank's "substandard" assets decreased from $82 million at December 31, 1992 to $79 million at December 31, 1993, primarily as a result of payoffs of real estate loans and disposition of foreclosed real estate. This decrease was partially offset by the classification of an investment in a privately issued adjustable-rate commercial MBS. Assets classified as "substandard" are inadequately protected by the current net worth or paying capacity of the obligor or the collateral pledged, if any. Foreclosed real estate decreased $14.8 million during 1993 principally as a result of the disposition of a $10.4 million multi-family property located in southern Nevada. It is the Bank's practice to charge off all assets which it considers to be "loss." As a result, none of the Bank's assets, net of charge-offs, were classified as "loss" at December 31, 1993.

The security classified as substandard represents a privately issued MBS collateralized by apartments, office buildings, town homes, shopping centers and day care centers located in various states along the southeastern seaboard and is further supported by a credit enhancement feature. The single A credit rating of this security was withdrawn by the rating agency in January 1993, due to the delinquency of a large number of the loans underlying the security. Because of the limited number of owners of the security, no quoted market value is available on the MBS. Therefore, the Bank's management performed a credit review of the loans underlying the MBS to determine the appropriate fair value of the security. Based on these credit reviews, the

Bank determined the total estimated fair value of each security, taking into account the credit enhancement structure. Also, based on the credit reviews, the Bank designated $10.6 million of the security as substandard, $5.2 million was designated as special mention, and the remainder was not classified as of September 30, 1993. The Bank presented the results of its valuation analysis and revised classification of the investment to the OTS during the third quarter of 1993. The OTS had no objection to the Bank's valuation methodology or classification at that time. During the Bank's regular OTS examination in the first quarter of 1994, the OTS concurred with the Bank's valuation methodology, but classified the entire security balance as substandard, stating there was no policy allowing for "split rating" of a security. The Bank has reflected the entire balance of the security as substandard at December 31, 1993.

During 1992, the Bank created a Special Assets Department with responsibility for resolution and/or disposition of classified assets. The department's goal is to reduce the level of classified assets through sales of foreclosed and other real estate and resolution of classified loans.

The current level of the Bank's classified assets reflects significant improvement from the prior two years. Aggressive management of the resolution of these assets along with some stabilization within the economy contributed to the success in reducing the classified asset portfolio. Although progress has been positive, the Bank is unable to predict at this time what level, if any, of these assets may subsequently be charged off or may result in actual losses. Steady economic growth and low interest rates should assist in the further reduction of classified assets.

During 1993, the Bank established provisions for estimated credit losses totaling $7.2 million, of which $1 million was related to the Bank's real estate portfolio and $6.2 million to its loan, foreclosed real estate, and debt security portfolio. In 1992, the Bank established provisions for estimated credit losses totaling $32.4 million, of which $18.3 million related to the Bank's real estate portfolio and $14.1 million related to its loan and foreclosed real estate portfolio. Of the $50.7 million provision for estimated real estate losses recorded in 1991, $32.2 million was applicable to the Bank's investment and loan to Margarita Village Development Company (MVDC) located in Temecula, California.

As a result of the Bank's internal review process, the general allowance for estimated credit losses decreased to $16.3 million at December 31, 1993 from $17.2 million at December 31, 1992. The reduced level of classified assets, reduced charge-off activity, and the stabilization of the economy contributed to the decrease.

The Bank's loan portfolio is concentrated primarily in Nevada, California and Arizona. The following table summarizes the geographic concentrations of the Bank's loan portfolios at December 31, 1993 (thousands of dollars):

LOANS BY REGION

	RESIDENTIAL	COMMERCIAL MORTGAGE	CONSUMER	CONSTRUCTION AND LAND	COMMERCIAL	TOTAL
Nevada	$ 333,473	$173,364	$106,058	$ 27,129	$ 25,297	$665,321
California	81,385	5,594	1,736	1,318	--	90,033
Arizona	42,419	4,792	21,899	197	104	69,411
Other	524	3,262	4,375	4,404	--	12,565
Total	$ 457,801	$187,012	$134,068	$ 33,048	$ 25,401	$837,330

The following table sets forth by geographic location the amount of classified assets at December 31, 1993 (thousands of dollars):

CLASSIFIED ASSETS BY GEOGRAPHIC LOCATION

	MORTGAGE LOANS	CONSTRUCTION AND LAND LOANS	NON-MORTGAGE LOANS	FORECLOSED REAL ESTATE	INVESTMENTS IN REAL ESTATE	TOTAL
Nevada	$27,958	$ 32	$394	$2,301	$ 797	$31,482
California	4,041	4,549	--	6,566	--	15,156
Arizona	862	--	50	768	1,369	3,049
Other	29,509	--	--	72	--	29,581
Total	$62,370	$4,581	$444	$9,707	$ 2,166	$79,268

The mortgage loans of $29.5 million in other states represent the classified MBS collateralized by loans in states along the southeastern seaboard. Classified construction and land loans include committed but undisbursed loan amounts.

The following table sets forth by type of collateral, the amount of classified assets at December 31, 1993 (thousands of dollars):

CLASSIFIED ASSETS BY TYPE OF LOAN

	LOANS	FORECLOSED REAL ESTATE	INVESTMENTS IN REAL ESTATE	DEBT SECURITY
Single-family residential	$ 7,339	$1,401	$ --	$ --
Commercial and multi-family mortgage	25,522	5,094	1,369	29,509
Construction/land	4,581	2,891	797	--
Consumer	134	321	--	--
Other	310	--	--	--
Total	$37,886	$9,707	$2,166	$ 29,509

The largest substandard loan at December 31, 1993 was an $8.6 million multi-family real estate loan in Nevada. In addition, the Bank had six other substandard loans at December 31, 1993 in excess of $1 million: two multi-family loans in Nevada, three commercial mortgage properties in Nevada, and one single-family residential development project in California.

The largest parcel of foreclosed real estate owned by the Bank at December 31, 1993, was a $2.1 million single-family residential development project in California. The Bank also owned three parcels of foreclosed real estate at December 31, 1993 with book values in excess of $1 million: one apartment complex located in Nevada and two single-family residential development projects located in California.

Substandard real estate held for investment includes a $1.4 million Arizona branch facility not included as part of the Arizona sale. This branch facility was formerly included in premises and equipment. See Notes 2 and 5 of the Notes to Consolidated Financial Statements for further discussion.

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

	NET CHARGE-OFFS 1993	NET CHARGE-OFFS 1992
Single-family residential	$ 916	$ 422
Commercial and multi-family mortgage	2,275	93
Construction/land	2,248	3,765
Nonmortgage	1,750	4,682
Net charge-offs	$7,189	$8,962

The $2.3 million of commercial mortgage charge-offs for the year ended December 31, 1993 were comprised principally of two apartment complex properties for $800,000 each in Nevada. One was an insubstance foreclosure and the other was foreclosed real estate subsequently sold during 1993. Construction and land losses in 1993 consisted primarily of two California loans totaling $1.5 million. Nonmortgage loan charge-offs were principally comprised of $1 million of losses in installment loans and $591,000 of credit card charge-offs in 1993.

LONG-TERM STRATEGIC BUSINESS PLAN

In 1992, the Bank developed a comprehensive long-term Strategic Business Plan (the Plan) in order to reduce the Bank's level of interest rate, liquidity and prepayment risks. The Plan included a review of the Bank's balance sheet size, asset mix between fixed-rate and adjustable-rate assets, and IRR.

As a result of this review, during 1992 the Bank began execution of a strategy to restructure its balance sheet, and changed its investment policy with regard to loans held for investment versus held for sale. The Bank's balance sheet restructuring involved the sale of all fixed-rate single-family mortgage loans and MBS with remaining maturities greater than or equal to 25 years, canceling interest rate swaps which hedged the IRR of such assets, and reinvesting the proceeds of the sales in adjustable-rate MBS and five-year fixed-rate balloon MBS.

The Bank's accounting policy was amended to designate all fixed-rate loans and debt securities with maturities greater than or equal to 25 years (which possess normal qualifying characteristics required for sale) as available/held for sale, along with single-family residential loans originated for specific sales commitments. Fixed-rate loans with maturities less than 25 years, and all adjustable-rate loans continue to be held for investment, while fixed-rate debt securities with maturities of less than 25 years and all adjustable-rate debt securities are either designated as held for investment or available for sale.

In conjunction with the balance sheet restructuring during 1992, the Bank sold $152 million of single-family residential fixed-rate loans, $241 million of fixed-rate MBS, and canceled $300 million (notional amount) of interest rate swaps hedging these assets. The Bank purchased $394 million of adjustable-rate and balloon MBS. Additionally, the Plan included organizational restructuring, which in some cases involved the elimination of positions. General and administrative expenses for the year ended December 31, 1992, include $1 million for severance benefits related to this restructuring.

In the course of the development of the Bank's Plan, the BOD and management established several core strategies. One of the primary strategies was to "right size and right structure" the Bank in terms of balance sheet, revenue and expenses.

In the comprehensive analysis performed to determine the appropriate balance sheet size, management determined that the Bank's total asset base should be approximately $1.8 billion by December 1996. This analysis indicated that an immediate reduction of the wholesale assets and liabilities of the Bank without a corresponding decrease in noninterest expense would severely damage core earnings and hamper the success of the Plan. As the Plan evolved, it became more clear that the asset side of the Bank must be restructured to replace lower yielding debt securities with higher yielding loans and that higher costing CDs and borrowings must be replaced with lower costing transaction accounts.

The implementation of the Plan emphasized the building of the Bank's retail deposit base and the meshing of customers' deposit and loan needs. The expansion of the Business Banking Department has contributed to the Bank's increased focus on customer relationships. Consumer lending is expected to increase as the Bank continues to serve its local communities.

In May 1993, the Bank signed a Definitive Agreement with World Savings and Loan Association (World) of Oakland, California, whereby World agreed to acquire the Bank's Arizona branch operations, including all related deposit liabilities of approximately $321 million. The transaction was approved by the appropriate regulatory authorities and closed in August 1993. As a result of the sale, the Bank recorded a $6.3 million loss, which included a write-off of $5.9 million in goodwill (excess of cost over net assets acquired) and $367,000 of other related net costs. The Bank sold $334 million of MBS to effect the sale of the

Bank's Arizona-based deposit liabilities to World and to maintain the Bank's interest rate risk position. The sale of the securities resulted in a gain of $7.4 million ($4.9 million after tax) included in gain on sale of debt securities in the Consolidated Statements of Income. The final disposition resulted in an after-tax loss of approximately $1 million. The transaction resulted in an improved net interest margin, lower general and administrative expenses, and improved regulatory capital ratios.

In January 1994, the Bank sold its credit card portfolio for a gain of approximately $1.7 million. The decision to sell this portfolio was based on the profitability of credit cards versus other lines of business and the inability to compete with the large, highly efficient credit card issuers with economies and market penetration advantages. The Bank will maintain an agent bank relationship with the holder of the credit card portfolio which will provide fee income and cross-selling opportunities while reducing general and administrative expenses.

RESULTS OF FINANCIAL SERVICES OPERATIONS

The Bank's net earnings depend in large part on the difference, or interest rate spread, between the yield it earns from its loan and debt security portfolios and the rates it pays on deposits and borrowings.

The following table reflects the components of net interest income of the Bank for each of the three years in the period ended December 31, 1993, setting forth average assets, liabilities and equity; interest income on interest-earning assets and interest expense on interest-bearing liabilities; average yields on interest-earning assets and interest-bearing liabilities; and net interest income (thousands of dollars):

	YEAR ENDED DECEMBER 31,								
	1993			1992			1991		
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD	AVERAGE BALANCE	INTEREST	AVERAGE YIELD	AVERAGE BALANCE	INTEREST	AVERAGE YIELD
ASSETS									
INTEREST-EARNING ASSETS									
Cash equivalents......	$ 42,787	$ 1,321	3.09%	$ 38,107	$ 1,349	3.54%	$ 54,175	$ 3,034	5.60%
Debt securities held to maturity.........	425,141	26,909	6.33	1,065,593	75,955	7.13	1,216,497	106,264	8.74
Debt securities available for sale................	542,264	30,395	5.61	12,029	1,043	8.67	--	--	--
Loans receivable......	790,082	73,106	9.25	858,360	87,038	10.14	946,283	103,589	10.95
FHLB stock............	16,475	594	3.61	17,392	293	1.68	20,379	1,104	5.42
Total interest-earning assets................	1,816,749	132,325	7.28	1,991,481	165,678	8.32	2,237,334	213,991	9.56
NONINTEREST-EARNING ASSETS									
Real estate held for sale or development.........	26,132			36,947			65,245		
Premises and equipment, net......	28,807			32,846			36,249		
Other assets..........	56,443			57,107			32,130		
Excess of cost over net assets acquired...........	73,972			81,620			85,746		
Total assets............	$2,002,103			$2,200,001			$2,456,704		
LIABILITIES AND STOCKHOLDER'S EQUITY									
INTEREST-BEARING LIABILITIES									
Deposits..............	$1,443,628	57,643	3.99	$1,688,884	85,974	5.09	$1,693,797	114,744	6.77
Securities under agreements to repurchase..........	305,123	13,132	4.30	204,222	12,213	5.98	246,071	18,137	7.37
Advances from FHLB....	38,897	2,147	5.52	40,639	3,389	8.34	55,222	4,229	7.66
Bonds payable.........	--	--	--	29,102	3,015	10.36	81,508	4,885	5.99
Notes payable.........	14,229	1,170	8.22	19,448	1,623	8.35	20,597	1,755	8.52
Unsecured senior notes..............	13,777	1,021	7.41	25,000	1,881	7.52	161,892	12,536	7.74
Total interest-bearing liabilities...........	1,815,654	75,113	4.14	2,007,295	108,095	5.39	2,259,087	156,286	6.92
Cost of hedging activities............		24	--		4,794	.24		6,702	.30
Cost of funds...........		75,137	4.14		112,889	5.63		162,988	7.22
NONINTEREST-BEARING LIABILITIES AND STOCKHOLDER'S EQUITY									
Other liabilities and accrued expenses....	22,914			28,558			33,795		
Income taxes payable............	--			--			(972)		
Total liabilities.......	1,838,568			2,035,853			2,291,910		
Total stockholder's equity...............	163,535			164,148			164,794		
Total liabilities and equity...............	$2,002,103			$2,200,001			$2,456,704		
Capitalized and transferred interest.............		61	--		972	.05		4,200	.19
Net interest income.....		$ 57,249	3.14%		$ 53,761	2.74%		$ 55,203	2.53%

Net yield on

interest-earning assets................	3.15%	2.70%	2.47%
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Note: Loans receivable include accrued interest and loans on nonaccrual, and are net of undisbursed funds, valuation allowances, discounts and deferred loan fees.

The net yields on average interest-earning assets have steadily increased (total dollar difference between interest earned and interest paid, divided by average interest-earning assets) and were 3.15 percent, 2.70 percent and 2.47 percent for the years ended December 31, 1993, 1992 and 1991, respectively.

The following table shows, for the periods indicated, the effects of the two primary determinants of the Bank's net interest income: interest rate spread and the relative amounts of interest-sensitive assets and liabilities. The table also shows the extent to which changes in interest rates and changes in the volumes of interest sensitive assets and liabilities have affected the Bank's interest income and expense for the periods indicated. Changes from period to period are attributed to: (i) changes in rate (change in weighted average interest rate multiplied by prior period average portfolio balance); (ii) changes in volume (change in average portfolio balance multiplied by prior period rate); and (iii) net or combined changes in rate and volume. Any changes attributable to both rate and volume that cannot be segregated have been allocated proportionately between the two factors.

	YEAR ENDED DECEMBER 31,					
	1993 COMPARED TO 1992 INCREASE (DECREASE) DUE TO CHANGES IN			1992 COMPARED TO 1991 INCREASE (DECREASE) DUE TO CHANGES IN		
	VOLUME	RATE	NET	VOLUME	RATE	NET
	(THOUSANDS OF DOLLARS)					
INTEREST INCOME ON:						
Cash equivalents	$ 623	$ (651)	$ (28)	$ (752)	$ (933)	$ (1,685)
Debt securities held to maturity	(41,340)	(7,706)	(49,046)	(12,205)	(18,104)	(30,309)
Debt securities available for sale	29,589	(237)	29,352	1,043	--	1,043
Loans receivable	(6,635)	(7,297)	(13,932)	(9,229)	(7,322)	(16,551)
Dividends on FHLB stock	(15)	316	301	(142)	(669)	(811)
Total interest income	(17,778)	(15,575)	(33,353)	(21,285)	(27,028)	(48,313)
INTEREST EXPENSE ON:						
Deposits	(11,402)	(16,929)	(28,331)	(335)	(28,435)	(28,770)
Securities sold under agreements to repurchase	2,124	(1,205)	919	(2,809)	(3,115)	(5,924)
Advances from FHLB	(140)	(1,102)	(1,242)	(1,267)	427	(840)
Bonds payable	(1,508)	(1,507)	(3,015)	(4,218)	2,348	(1,870)
Notes payable	(430)	(23)	(453)	(98)	(34)	(132)
Unsecured senior notes	(832)	(28)	(860)	(10,309)	(346)	(10,655)
Total interest expense	(12,188)	(20,794)	(32,982)	(19,036)	(29,155)	(48,191)
Benefit of hedging activity	(3,364)	(1,406)	(4,770)	(852)	(1,056)	(1,908)
Cost of funds	(15,552)	(22,200)	(37,752)	(19,888)	(30,211)	(50,099)
Capitalized and transferred interest	(502)	(409)	(911)	(2,423)	(805)	(3,228)
Net interest income	$ (2,728)	$ 6,216	$ 3,488	$ (3,820)	$ 2,378	$ (1,442)

1993 vs. 1992

The Bank recorded net income of $6.6 million for the year ended December 31, 1993 compared to a net loss of $9.8 million for the year ended December 31, 1992. The increase in net earnings was principally due to the decrease in provisions for estimated credit losses, the gain recorded on the sale of debt securities in connection with the Arizona sale, the cumulative effect of change in method for accounting for income taxes and an improved net interest margin, offset partially by the write-off of goodwill as the result of the Arizona sale as described in Note 2 of the Notes to Consolidated Financial Statements.

The lower interest-earning asset base is the result of the Bank's previously described strategy of reducing its total asset size. The decline in the average yield on interest-earning assets is the result of the repricing of interest sensitive loans and debt securities, repayment of higher yielding loans and debt securities and the replacement of such loans and debt securities with lower yielding originations and purchases.

The following summarizes the significant effects of these factors:

(i) Interest on cash equivalents decreased due to the lower yield which was a result of the lower interest rates during the year.

(ii) Interest on debt securities, in total, decreased principally as a result of $294 million of payoffs and principal amortization in the portfolio and the third quarter effect of the sale of $334 million to fund the transfer of the Arizona-based deposit liabilities, offset partially by $113 million in debt security purchases. The decrease in debt securities held to maturity was the result of the reclassification of the majority of the portfolio to debt securities available for sale category during the second quarter. This resulted in the increase in debt securities available for sale offset partially by the sale of $334 million to fund the transfer of the Arizona-based deposit liabilities. The decrease in yield was due to sales of higher coupon securities in 1992 and 1993 and to repricing of adjustable-rate debt securities, repayments and purchase of lower yielding debt securities.

(iii) The average loans receivable portfolio decreased principally due to payoffs exceeding originations of loans held for investment. The average yield on loans declined as a result of lower interest rates on newly funded loans, repricing of adjustable loans, and payoffs of higher yielding loans.

(iv) Dividends on FHLB stock increased as a result of a higher declared dividend rate in 1993.

(v) The average balance for deposits decreased as a result of the Arizona sale of $321 million. The decrease in the cost of savings was due to the lower interest rates and the disintermediation of certificates of deposit accounts to transaction accounts.

(vi) The increase in interest on reverse repurchase agreements was due to new borrowings during the first part of 1993 partially offset by a decrease in the cost.

(vii) The decrease in the average balance for FHLB advances was due to the repayment of advances in the early part of 1993 somewhat offset by new borrowings later in the year. The decrease in the cost of these advances was due to lower interest rates on the new borrowings versus the higher rates on these advances paid off.

(viii) The decrease in interest on bonds payable was the result of the payoff of mortgage-backed bonds during the second quarter of 1992. These bonds were called on June 30, 1992.

(ix) Interest on notes payable declined as a result of the repayment of $10.4 million in the third quarter of 1993.

(x) Interest on unsecured senior notes declined as a result of the pay-off of the $25 million balance in the third quarter of 1993.

The Bank's cost of hedging activities decreased principally as a result of the cancellation of $300 million (notional amount) of interest rate swaps outstanding during the second and third quarters of 1992 and only $7.5 million (notional amount) of interest rate swaps were entered into in late 1993.

Provisions for estimated credit losses decreased in 1993 versus 1992 as a result of management's evaluation of the adequacy of the allowances for estimated credit losses. See Risk Management -- Credit Risk Management herein and Note 6 of the Notes to Consolidated Financial Statements for further discussion.

The net gain on sale of loans decreased $2.9 million from $4.6 million in 1992 to $1.7 million in 1993 due to a decrease in the amount of loans sold from $240 million in 1992 to $78 million in 1993. The gain on sale of mortgage loan servicing decreased $1.9 million in 1993 as there were no sales of mortgage loan servicing in 1993. Net gains on the sale of debt securities, including the interest rate swap loss, increased from a net loss of $809,000 in 1992 to a net gain of $8 million in 1993, primarily due to the sale of $361 million in debt securities, of which $334 million were sold to fund the transfer of the Arizona-based deposit liabilities. The net loss on the termination of the interest rate swaps in 1992 was $14.1 million. No similar activity occurred in 1993. The net loss on the termination of the interest rate swaps was related to the cancellation of $300 million (notional amount) of interest rate swaps which hedged loans and debt securities sold during 1992 as part of the balance sheet restructuring. Loan related fees decreased $1.3 million due to the decrease in loan servicing volume. Deposit fees increased $984,000 due to an increase in the fee structure. Other income increased principally due to a legal settlement received of $1.2 million.

General and administrative expenses increased $3 million, or seven percent, in 1993. This increase was due to the reinstatement of employee merit increases and incentive awards during 1993, a scheduled rent increase on office space, and increased professional services fees from legal efforts related to California real estate development projects.

The Bank's effective tax rate was 64.1 percent in 1993 primarily as a result of goodwill amortization and goodwill write-offs not deductible for tax purposes.

1992 vs. 1991

The Bank recorded a net loss of $9.8 million for the year ended December 31, 1992 compared to a net loss of $28.4 million for the year ended December 31, 1991. The net loss was principally due to the Bank recording $32.4 million in provisions for estimated credit losses. See Risk Management -- Credit Risk Management herein for additional discussion.

Pretax earnings from core banking operations, which exclude real estate development activities and amortization of excess of cost over net assets acquired, for the year ended December 31, 1992, declined to $9.7 million from $17.5 million in 1991, principally as a result of increased provisions for estimated credit losses and increased general and administrative expenses.

Net interest income decreased in 1992 as a result of a lower interest-earning asset base and a decline in the Bank's average yield on interest-earning assets offset partially by a 159 basis point decline in the Bank's cost of funds. The decline in the Bank's cost of funds was a result of the lower interest rate environment during 1992 and a decline in the Bank's level of wholesale borrowings.

The lower interest-earning asset base was the result of the Bank's previously described strategy of reducing its total asset size. The decline in the average yield on interest-earning assets was the result of the repricing of interest sensitive loans, payoffs and sales of higher yielding fixed-rate loans and debt securities being replaced by lower yielding originations and purchases.

The following summarizes the significant effects of these factors:

(i) The decrease in the average loans receivable portfolio was a result of 1992 sales of $240 million, along with payoffs, principal amortization and securitizations exceeding new loan originations. The average yield declined as a result of payoffs of higher yielding fixed-rate loans as individuals opted to refinance their mortgage loans, repricing of interest rate sensitive loans and sales of fixed-rate loans.

(ii) Debt securities in total declined, principally as a result of $294 million of payoffs and principal amortization in the portfolio and sales of $275 million during the year, offset by $546 million in debt securities purchased. There were no debt securities designated as available for sale in 1991.

(iii) Interest on deposits decreased in 1992 principally as a result of deposit outflows due to the low interest rate environment.

(iv) Interest on reverse repurchase agreements declined as a result of repayments and a decline in average rates.

(v) Interest on FHLB advances declined as a result of repayments which was partially offset by an increase in the average rate.

(vi) Interest on bonds payable decreased principally as a result of the payoff of $74.1 million of bonds payable during 1992.

(vii) Interest on unsecured senior notes declined due to repayment of $150 million in late 1991.

The declines in the average balances of reverse repurchase agreements, FHLB advances, bonds payable and unsecured senior notes were a result of the previously described strategy of the Bank to shift its liability mix from wholesale borrowings to retail deposits. The declines in average yields on reverse repurchase agreements and unsecured senior notes resulted from the continuing decline in short-term interest rates during 1992.

The Bank's cost of hedging activities decreased $1.9 million, principally as a result of the cancellation of $300 million (notional amount) of interest rate swaps outstanding during the second and third quarters of 1992.

Provisions for estimated credit losses increased $2.1 million in 1992 versus 1991 as a result of management's evaluation of the adequacy of the allowances for estimated credit losses. See Risk Management -- Credit Risk Management herein and Note 6 of the Notes to Consolidated Financial Statements for additional discussion.

In conjunction with the restructuring of the balance sheet, the Bank sold $394 million of loans and debt securities, which resulted in net gains of $17.6 million. These gains were partially offset by the loss of $14.1 million related to the cancellation of interest rate swaps ($300 million -- notional amount) which served as a hedge to the assets sold. Gains on sales of loans and debt securities not related to the restructuring amounted to $2.2 million. Loan related fees decreased $1.1 million principally due to a lower balance in the loan portfolio and lower interest rates. Deposit related fees and other income increased $3.3 million principally due to increases in merchant services fee income and fees from sales of mutual fund products.

General and administrative expenses increased $4.1 million, or ten percent, in 1992 due principally to expenses incurred in restructuring the Bank's organization, including severance benefits and changes in staffing, and increased regulatory assessments.

The Bank recorded a $15.3 million net loss from real estate operations in 1992, compared to a net loss of $50.5 million in 1991. The 1992 and 1991 losses are a result of recording $18.3 million and $50.7 million, respectively, in provisions for estimated credit losses and fewer unit sales. See Risk Management -- Credit Risk Management herein and Note 6 of the Notes to Consolidated Financial Statements for additional discussion. The lower unit sales volume in 1992 and 1991 was the result of the impact of the economic recession on the California real estate market and the fewer number of active projects in which the Bank was participating.

The effective tax rate (benefit) for 1992 was 0.9 percent compared to (23.6) percent in 1991, primarily as a result of increased provisions for estimated losses in 1992, which were not deductible for tax purposes.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(THOUSANDS OF DOLLARS)

ASSETS

	DECEMBER 31,	
	1993	1992
Cash and cash equivalents	$ 121,342	$ 132,641
Debt securities available for sale (at fair value in 1993, at lower of cost or fair value in 1992) (Notes 3 and 8)	595,726	6,780
Debt securities held to maturity (fair value of $68,738 and $1,170,101) (Note 3)	69,660	1,158,977
Loans receivable, net of allowance for estimated losses of $16,251 and $17,228 (Notes 4 and 6)	817,279	740,868
Loans receivable held for sale (fair value of $22,019 and $19,867) (Note 4)	20,051	19,543
Receivables, less reserves for uncollectibles of $1,683 and $1,507	98,265	110,867
Gas utility property, net of accumulated depreciation of $399,155 and $369,806	954,488	906,420
Real estate held for sale or development, net of allowance for estimated losses of $935 and $1,463 (Notes 5 and 6)	4,088	3,014
Real estate acquired through foreclosure	9,707	24,488
Other property, net of accumulated depreciation of $25,229 and $22,563	36,495	46,799
Excess of cost over net assets acquired	69,501	79,379
Other assets	147,347	111,752
Total assets	$2,943,949	$3,341,528
LIABILITIES & STOCKHOLDERS' EQUITY		
Deposits (Note 7)	$1,207,852	$1,622,164
Securities sold under agreements to repurchase (Note 8)	259,041	376,859
Deferred income taxes and tax credits, net (Note 14)	151,558	129,561
Accounts payable and other accrued liabilities	194,697	193,661
Notes payable (Note 10)	86,000	20,000
Long-term debt, including current maturities (Note 11)	692,865	654,523
Total liabilities	2,592,013	2,996,768
Commitments and contingencies (Note 9)		
Preferred and preference stocks, including current maturities (Note 12)	8,058	15,316
Stockholders' equity:		
Common stock --		
Authorized -- 30,000,000 shares		
Outstanding -- 20,997,319 shares at December 31, 1993	22,627	22,228
Additional paid-in capital	274,410	267,981
Capital stock expense	(5,685)	(5,685)
Unrealized gain, net of tax, on debt securities available for sale (Note 3)	8,761	--
Retained earnings	43,765	44,920
Total stockholders' equity	343,878	329,444
Total liabilities and stockholders' equity	$2,943,949	$3,341,528

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Operating revenues:			
Gas operating revenues	$539,105	$534,390	$565,010
Financial services interest income	132,325	165,678	213,991
Income from real estate operations (Note 5)	100	3,023	219
Other	18,311	15,392	15,571
Total (Notes 15 and 16)	689,841	718,483	794,791
Operating expenses:			
Net cost of gas purchased	212,290	214,293	276,954
Financial services interest expense, net	75,076	111,917	158,788
Operating expense (Note 13)	165,150	155,654	148,972
Maintenance expense	28,337	26,842	25,255
Provision for estimated credit losses (Note 6)	7,222	32,438	62,754
Depreciation, depletion and amortization (Note 15)	63,583	60,668	55,349
Taxes other than income taxes	24,760	22,940	21,034
Other	25,845	17,883	16,582
Total	602,263	642,635	765,688
Operating income (Notes 15 and 16)	87,578	75,848	29,103
Other income and (expenses):			
Other income	1,549	5,336	5,449
Interest and amortization of debt discount and expense	(49,706)	(43,115)	(44,461)
Other expenses (Note 17)	(15,801)	(5,935)	(3,625)
Total	(63,958)	(43,714)	(42,637)
Income (loss) before income taxes	23,620	32,134	(13,534)
Income taxes (Note 14)	11,259	14,473	641
Net income (loss) before cumulative effect of accounting change	12,361	17,661	(14,175)
Cumulative effect of change in method of accounting (Note 14)	3,045	--	--
Net income (loss) (Note 16)	15,406	17,661	(14,175)
Preferred/preference stock dividend requirements (Note 12)	741	1,051	1,325
Net income (loss) applicable to common stock (Note 16)	$ 14,665	$ 16,610	$(15,500)
Earnings (loss) per share before cumulative effect of accounting change	$ .56	$ 0.81	$ (0.76)
Earnings per share from cumulative effect of change in method of accounting	.15	--	--
Earnings (loss) per share of common stock (Note 16)	$ 0.71	$ 0.81	$ (0.76)
Average number of common shares outstanding	20,729	20,598	20,389

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 15,406	$ 17,661	$ (14,175)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion and amortization	63,583	60,668	55,349
Provision for estimated losses	7,222	32,438	62,754
Deferred income taxes	27,201	(16,256)	(7,217)
Unrecovered purchased gas costs	(33,571)	24,353	2,078
Net gain on sales of loans	(1,751)	(6,563)	(2,324)
Net gain on sales of debt securities	(7,973)	(13,278)	(20)
Loss on sale of Arizona assets and services	6,262	--	--
Cumulative effect of change in method of accounting for income taxes	(3,045)	--	--
Other	16,157	(12,582)	16,513
Net cash provided by operating activities	89,491	86,441	112,958
CASH FLOW FROM INVESTING ACTIVITIES:			
Construction expenditures	(115,424)	(105,595)	(81,063)
Acquisition of CPN properties	--	--	(17,077)
Loan originations, net of repayments	(186,609)	(190,511)	(163,191)
Sales of loans and loan servicing rights	78,353	240,605	232,652
Purchases of debt securities	(113,078)	(545,706)	(66,404)
Proceeds from sales of debt securities	360,853	274,802	1,164
Proceeds from maturities and repayments of debt securities	293,788	348,603	273,503
Proceeds from sale of real estate held for sale or development	1,926	11,003	33,657
Proceeds from sale of real estate acquired through foreclosure	22,916	18,030	13,461
Additions to real estate held for development	(3,211)	(4,246)	(21,335)
Termination of interest rate swaps	--	(14,087)	8,231
Proceeds from sale of Arizona assets and services	6,718	--	--
Other	(2,409)	3,147	6,117
Net cash provided by investing activities	343,823	36,045	219,715
CASH FLOW FROM FINANCING ACTIVITIES:			
Issuance of common stock	6,790	--	7,219
Reacquisition of preferred stock	(7,258)	(7,258)	(7,258)
Dividends paid	(16,139)	(15,497)	(22,688)
Issuance of long-term debt	86,909	211,943	39,523
Retirement of long-term debt	(48,567)	(231,750)	(207,688)
Issuance (repayment) of notes payable	66,000	(60,000)	45,000
Net change in deposit accounts	(92,815)	(111,446)	39,569
Sale and assumption of Arizona deposit liabilities	(320,902)	--	--
Proceeds from repos/other borrowings	1,499,893	1,448,546	1,178,627
Repayment of repos/other borrowings	(1,617,711)	(1,336,220)	(1,362,741)
Other	(813)	(878)	84
Net cash used in financing activities	(444,613)	(102,560)	(290,353)
Net change in cash and cash equivalents	(11,299)	19,926	42,320
Cash and cash equivalents at beginning of period	132,641	112,715	70,395
Cash and cash equivalents at end of period	$ 121,342	$ 132,641	$ 112,715
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 66,885	$ 73,513	$ 90,221
Income taxes, net of refunds	10,982	13,293	5,929

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS)

	COMMON STOCK (SHARES)	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	CAPITAL STOCK EXPENSE	UNREALIZED GAIN	RETAINED EARNINGS	TOTAL
DECEMBER 31, 1990.....	20,036	$21,666	$261,197	$(5,690)	$ --	$76,081	$353,254
Common stock issuances...........	562	562	6,720				7,282
Net loss..............						(14,175)	(14,175)
Preferred stock dividends...........						(665)	(665)
Second preference stock dividends.....						(615)	(615)
Common stock dividends...........						(17,932)	(17,932)
Other.................				5		(5)	--
DECEMBER 31, 1991.....	20,598	22,228	267,917	(5,685)	--	42,689	327,149
Common stock issuances...........			64				64
Net income............						17,661	17,661
Preferred stock dividends...........						(589)	(589)
Second preference stock dividends.....						(422)	(422)
Common stock dividends...........						(14,419)	(14,419)
DECEMBER 31, 1992.....	20,598	22,228	267,981	(5,685)	--	44,920	329,444
Common stock issuances...........	399	399	6,429				6,828
Net income............						15,406	15,406
Preferred stock dividends...........						(513)	(513)
Second preference stock dividends.....						(228)	(228)
Common stock dividends...........						(15,820)	(15,820)
Unrealized gain.......					8,761		8,761
DECEMBER 31, 1993.....	20,997	$22,627	$274,410	$(5,685)	$8,761	$43,765	$343,878

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation -- The accompanying financial statements are presented on a consolidated basis and include the accounts of the Company, including the Bank. Intercompany balances and transactions have been eliminated. Certain amounts for prior years have been reclassified to conform to the current year's presentation. See Selected Financial Data for information related to each business segment. Such information should be read in conjunction with these financial statements.

For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and other financial instruments with a maturity of three months or less.

The Company follows generally accepted accounting principles (GAAP) in all of its businesses. Accounting for the Company's gas utility operations conforms with GAAP as applied to regulated companies and as prescribed by federal agencies and the commissions of the various states in which the utility operates.

Debt Securities -- On December 31, 1993, the Bank adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The statement requires classification of investments in debt and equity securities into one of three categories: held to maturity, available for sale, or trading. At the time of purchase, the Bank will designate a security into one of these three categories.

Debt securities classified as held to maturity are those which the Bank has the positive intent and ability to hold to maturity. These securities are carried at cost adjusted for the amortization of the related premiums or accretion of the related discounts into interest income using the level-yield method over the remaining period until maturity. The Bank has the ability and it is its policy to hold the debt securities so designated until maturity. The Bank's accounting policy states that no security with a remaining maturity greater than 25 years may be designated as held to maturity.

Securities classified as available for sale are those which the Bank intends to hold for an indefinite period and may be sold in response to changes in market interest rates, changes in the security's prepayment risk, the Bank's need for liquidity, changes in the availability and yield of alternative investments, and other asset/liability management needs. Securities classified as available for sale are stated at fair value at December 31, 1993 in the Consolidated Statements of Financial Position. Changes in fair value are reported net of tax as a separate component of stockholders' equity but are not included in net income. At December 31, 1993, the Bank included an $8.8 million unrealized gain, net of tax, on $596 million of debt securities available for sale as a separate component of stockholders' equity. Realized gains or losses are recorded into income when sold. Debt securities available for sale at December 31, 1992 were accounted for at the lower of cost or fair value.

Trading securities are those which are bought and held principally for the purpose of selling in the near term. Trading securities include MBS held for sale in conjunction with mortgage banking activities. Trading securities are measured at fair value with changes in fair value included in earnings. At December 31, 1993, no securities were designated as "trading securities."

Mortgage Banking Activities -- The Bank's accounting policy is to designate all fixed-rate interest-sensitive assets with maturities greater than or equal to 25 years (which possess normal qualifying characteristics required for sale) as held for sale or available for sale, along with single-family residential loans originated for specific sales commitments. Fixed-rate interest-sensitive assets with maturities less than 25 years, and all adjustable-rate interestsensitive assets continue to be held for investment or available for sale unless designated as held for sale at time of origination.

Loans held for sale are carried at the lower of amortized cost or fair value as determined by outstanding investor commitments or, in the absence of such commitments, current investor yield requirements calculated

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)
on an aggregate basis. Valuation adjustments are charged against gain on sale of loans. Gains and losses on loan and MBS sales are determined using the specific identification method. Gains and losses are recognized to the extent that sales proceeds exceed or are less than the carrying value of the loans and MBS. Loans sold with servicing retained have included a normal servicing fee to be earned by the Bank as income over the life of the loan. Loans held for sale may be securitized into MBS and designated as trading securities. Prior to December 31, 1993, and implementation of SFAS No. 115, MBS created from mortgage banking activities were designated as held for sale and recorded at the lower of aggregate cost or market. Subsequently, these MBS will be designated as trading securities and recorded at fair value.

The Bank hedges interest rate risk on fixed-rate loan commitments expected to close and the inventory of loans held for sale through a combination of commitments from permanent investors, optional delivery commitments, and mandatory forward contracts. Related hedging gains and losses are recognized at the time gains and losses are recognized on the related loans.

Loans Receivable -- Real estate loans are recorded at cost, net of the undisbursed loan funds, loan discounts, unearned interest, deferred loan fees and provisions for estimated losses. Interest on loans receivable is credited to income when earned. Generally, when a loan becomes 90 days contractually delinquent, the accrual of interest is ceased and all previously accrued, but uncollected, interest income is reversed. Interest income on loans placed on nonaccrual status is generally recognized on a cash basis.

Fees are charged for originating and in some cases, for committing to originate loans. Loan origination and commitment fees, offset by certain direct origination costs, are deferred, and the net amounts amortized as an adjustment of the related loans' yields over the contractual lives thereof. Unamortized fees are recognized as income upon the sale or payoff of the loan.

Unearned interest, premiums and discounts on consumer installment, equity and property improvement loans are amortized to income over the expected lives of the loans using a method which approximates the level-yield method.

Concentrations of Credit Risk -- The Company's business activity with respect to gas utility operations is conducted with customers located within the three state region of Arizona, Nevada and California. Any credit risk the Company is exposed to related to utility operations is minimized by the taking of security deposits. Provisions for uncollectible accounts are recorded monthly and are recovered from customers through billed rates.

The Bank's portfolio of loans is collateralized by real estate located principally in Nevada, California and Arizona. Collectibility is, therefore, somewhat dependent upon these areas' economies and real estate values.

Gas Utility Property, Net -- Gas utility property, net includes gas plant at original cost, less the accumulated provision for depreciation and amortization, plus the unamortized balance of acquisition adjustments. Original cost includes contracted services, material, payroll and related costs such as taxes and benefits, general and administrative expenses, and an allowance for funds used during construction less contributions in aid of construction. Acquisition adjustments are amortized over the estimated remaining life of the acquired properties.

Real Estate Acquired Through Foreclosure -- Real estate acquired through foreclosure is stated at the lower of cost or fair value less cost to sell. Included in real estate acquired through foreclosure is $5.5 million and $21.7 million of loans foreclosed in-substance at December 31, 1993 and 1992, respectively. Write downs to fair value, disposition gains and losses, and operating income and costs are charged to the allowance for estimated credit losses.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Loans foreclosed in-substance consist of loans accounted for as foreclosed property even though actual foreclosure has not occurred. Although the collateral underlying these loans has not been repossessed, the borrower has little or no equity in the collateral at its current estimated fair value. Proceeds for repayment are expected to come only from the operation or sale of the collateral, and it is doubtful the borrower will rebuild equity in the collateral or repay the loan by other means in the foreseeable future. The amounts ultimately recovered from loans foreclosed in-substance could differ from the amounts used in arriving at the net carrying value of the assets because of future market factors beyond management's control or changes in strategy for recovering the investment.

Allowance for Estimated Credit Losses -- On a routine basis, management evaluates the adequacy of the allowances for estimated losses on loans, investments and real estate, and establishes additions to the allowances through provisions to expense. The Bank utilizes a comprehensive internal asset review system and general valuation allowance methodology. General valuation allowances are established for each of the loan, investment and real estate portfolios for unforeseen losses. A number of factors are taken into account in determining the adequacy of the level of allowances including management's review of the extent of existing risks in the portfolios, prevailing and anticipated economic conditions, actual loss experience, delinquencies, regular reviews of the quality of the Bank's loan and real estate portfolios by the Bank's Risk Management Committee and examinations by regulatory authorities.

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

While management uses currently available information to evaluate the adequacy of allowances and estimate identified losses for charge off, ultimate losses may vary from current estimates. Adjustments to estimates are charged to earnings in the period in which they become known.

Interest Rate Exchange Agreements -- The Bank uses interest rate swaps and interest rate collars to hedge its exposure to interest rate risk. These instruments are used only to hedge asset and liability portfolios and are not used for speculative purposes. Premiums, discounts and fees associated with these interest rate exchange agreements are amortized to expense on a straight-line basis over the lives of the agreements. The net interest received or paid is reflected as interest expense. Gains or losses resulting from the cancellation of agreements hedging assets and liabilities which remain outstanding are deferred and amortized over the remaining contract lives. Gains or losses are recognized in the current period if the hedged asset or liability is retired.

Deferred Gas Costs -- The gas segment is authorized by the various regulatory authorities having jurisdiction to adjust its billing rates for changes in the cost of gas purchased. The difference between the current cost of gas purchased and the cost of gas recovered in billed rates is deferred. Generally, these deferred amounts are recovered or refunded within one year.

Revenues -- Gas revenues are accrued from the date the customer was last billed to the end of the accounting period. In California, the Company is authorized to adjust gas revenues to reflect changes in operating margins from authorized levels related to all customer classes.

Depreciation and Amortization -- Depreciation is computed on the straight-line remaining life method at composite rates considered sufficient to amortize costs over estimated service lives. Excess of cost over net assets acquired is amortized on a straight-line basis over 25 years. Costs related to refunding utility debt and debt issuance expenses are deferred and amortized over the weighted average lives of the new issues.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Capitalization of Interest -- The Company capitalized $381,000, $934,000 and $631,000 of interest expense and a portion of the cost of equity funds related to natural gas utility operations for each of the years ended December 31, 1993, 1992 and 1991. The cost of equity funds used to finance the construction of utility plant are reported net within the consolidated statements of income as a reduction of interest charges. Utility plant construction costs, including cost of equity funds, are recovered in authorized rates through depreciation when completed projects are placed into operation.

Income Taxes -- Effective January 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes," which required a change from the deferred method of accounting for income taxes to the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

For years prior to 1993, deferred income taxes were recognized for income and expense items that were reported in different years for financial reporting purposes and income tax purposes using the tax rate applicable for the year of the calculation. Under the deferred method, deferred taxes were not adjusted for subsequent changes in tax rates.

Investment tax credits (ITC) related to gas utility operations are deferred and amortized over the life of related fixed assets.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA

Summarized consolidated financial statement data for the Bank is as follows. Certain reclassifications have been made to conform presentations for prior years with the current year's presentation:

CONSOLIDATED STATEMENTS OF INCOME
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Interest income	$132,325	$165,678	$213,991
Interest expense	75,076	111,917	158,788
Net interest income	57,249	53,761	55,203
Provision for estimated credit losses	(6,212)	(14,129)	(12,058)
Net interest income after provision for credit losses	51,037	39,632	43,145
Income from real estate operations	100	3,023	219
Provision for estimated real estate losses	(1,010)	(18,309)	(50,696)
Net loss from real estate operations	(910)	(15,286)	(50,477)
Gain on sale of loans	1,835	5,676	2,324
Loss on sale of loans	(84)	(1,043)	--
Gain on sale of debt securities	8,317	13,649	36
Loss on sale of debt securities	(344)	(371)	(16)
Loss on secondary marketing hedging activities	(968)	--	--
Gain on sale of mortgage loan servicing	--	1,930	--
Gain (loss) on interest rate swaps	--	(14,087)	5,727
Loss on sale -- Arizona branches	(6,262)	--	--
Loan related fees	1,025	2,280	3,428
Deposit related fees	6,397	5,413	3,811
Other income	2,133	1,945	261
	62,176	39,738	8,239
General and administrative expenses	48,296	45,309	41,237
Amortization of cost in excess of net assets acquired	3,984	4,156	4,156
Income (loss) before income taxes	9,896	(9,727)	(37,154)
Income tax expense (benefit)	6,345	91	(8,754)
Net income (loss) before cumulative effect of accounting change	3,551	(9,818)	(28,400)
Cumulative effect of change in method of accounting	3,045	--	--
Net income (loss)	$ 6,596	$ (9,818)	$(28,400)
Contribution to consolidated net income (loss)(1)	$ 1,655	$(14,553)	$(32,466)

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

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA -- (CONTINUED)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(THOUSANDS OF DOLLARS)

	DECEMBER 31,			
	CARRYING VALUE 1993	FAIR VALUE 1993	CARRYING VALUE 1992	FAIR VALUE 1992
ASSETS				
Cash and due from banks	$ 55,712	$ 55,712	$ 53,193	$ 53,193
Cash equivalents	63,503	63,503	79,000	79,000
Debt securities available for sale	595,726	595,726	6,780	6,924
Debt securities held to maturity	69,660	68,738	1,158,977	1,170,101
Loans receivable held for sale	20,051	22,305	19,543	19,867
Loans receivable, net of allowance for estimated credit losses of $16,251 in 1993 and $17,228 in 1992	817,279	841,127	740,868	747,686
Real estate acquired through foreclosure	9,707	*	24,488	*
Real estate held for sale or development, net of allowance for estimated losses of $935 in 1993 and $1,463 in 1992	4,088	*	3,014	*
FHLB stock, at cost	16,501	16,501	16,953	16,953
Other assets	29,691	*	55,539	*
Excess of cost over net assets acquired	69,501	*	79,379	*
	$1,751,419		$2,237,734	
LIABILITIES AND STOCKHOLDER'S EQUITY				
Deposits	$1,207,852	$1,217,225	$1,622,164	1,648,866
Securities sold under agreements to repurchase	259,041	261,625	376,859	381,744
Advances from FHLB	71,000	71,281	16,000	16,563
Notes payable	8,265	8,647	18,640	19,219
Unsecured senior notes	--	--	25,000	25,525
Other liabilities	28,318	*	17,485	*
	1,574,476		2,076,148	
Stockholder's equity	176,943	*	161,586	*
	$1,751,419		$2,237,734	

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* These items are not comprised of financial instruments and, therefore, are not applicable under SFAS No. 107. See SFAS No. 107 discussion herein.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA -- (CONTINUED)

	DECEMBER 31,			
	1993		1992	
	COMMITMENT	FAIR VALUE	COMMITMENT	FAIR VALUE
	(THOUSANDS OF DOLLARS)			
OFF-BALANCE SHEET ITEMS				
Outstanding commitments to originate loans	$ 47,903	$ 53	$ 32,398	$ 31
Commercial and other letters of credit	1,169	12	1,700	13
Interest rate swaps	7,500	169	--	--
Loan servicing rights	476,835	4,451	565,259	5,420
Outstanding firm commitments to sell loans and MBS	25,905	21	33,297	(131)
Outstanding master commitments to sell loans	217,393	(11)	36,412	(15)
Outstanding commitments to purchase loans and MBS	51,500	3	70,000	310

FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," requires that the Bank disclose estimated fair values for its financial instruments.

The fair value estimates were made at a discrete point in time based on relevant market information and other information about the financial instruments. Because no active market exists for a significant portion of the Bank's financial instruments, fair value estimates were based on judgements regarding current economic conditions, risk characteristics of various financial instruments, prepayment assumptions, future expected loss experience and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

In addition, the fair value estimates were based on existing on-balance sheet and off-balance sheet financial instruments without attempting to estimate the value of existing and anticipated future customer relationships and the value of assets and liabilities that were not considered financial instruments. Significant assets and liabilities that were not considered financial assets or liabilities include the Bank's retail branch network, deferred tax assets and liabilities, furniture, fixtures and equipment, and goodwill.

Additionally, the Bank intends to hold a significant portion of its assets and liabilities to their stated maturities. Therefore, the Bank does not intend to realize any significant differences between carrying value and fair value through sale or other disposition. No attempt should be made to adjust shareholders' equity to reflect the fair value disclosures.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA -- (CONTINUED)

Methods and assumptions used to determine estimated fair values are set forth below for the Bank's financial instruments as of December 31, 1993 and 1992.

ASSETS	METHODS AND ASSUMPTIONS USED TO ESTIMATE FAIR VALUE
Cash, due from banks and cash equivalents	Carrying value was used as the estimate of fair value based upon the short-term nature of the instruments.
Debt securities available for sale, debt securities held to maturity and loans receivable held for sale	Fair value was estimated using quotes, with the exception of privately issued debt securities and CMO residuals. Privately issued debt securities were valued based on the estimated fair value of the underlying loans. CMO residuals were valued using the discounted estimated future cash flows from these investments.
Loans receivable, net	Fair values were estimated for portfolios of loans with similar financial characteristics. Loans were segregated by type, such as commercial, commercial real estate, residential mortgage, credit card and other consumer. Each loan category was further segregated into fixed and adjustable interest rate components. Fair value for single-family residential loans was estimated by discounting the estimated future cash flows from these instruments using quoted market rates and dealer prepayment assumptions. Fair value for commercial mortgage, construction, land and other commercial loans was derived by discounting the estimated future cash flows from these instruments using the rates at which loans with similar maturity and underwriting characteristics would be made on December 31, 1993 or 1992, as applicable. Fair value for consumer loans was estimated using dealer quotes for securities backed by similar collateral. The book value for the allowance for estimated credit losses was used as the fair value estimate for credit losses within the entire loan portfolio.
FHLB stock	Carrying value was used as the estimate for fair value since it represents the price at which the FHLB will redeem the stock.
LIABILITIES	
Deposits	The fair value of demand deposits, savings deposits and money market deposits was estimated to be the book value reported in the financial statements since it represents the amount payable on demand. The fair value of fixed maturity deposits was estimated using the rates currently offered by the Bank for deposits with similar remaining maturities. The fair value of deposits does not include an estimate of the long-term relationship value of the Bank's deposit customers or the benefit that results from the low cost funding provided by deposit liabilities compared to the cost of borrowing funds in the market.
Securities sold under agreements to repurchase, notes payable and unsecured senior notes	Fair value was estimated by discounting the future cash flows using market and dealer quoted rates for debt with the same remaining maturities and characteristics.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA -- (CONTINUED)

LIABILITIES	METHODS AND ASSUMPTIONS USED TO ESTIMATE FAIR VALUE
Advances from FHLB	Fair value was estimated using the quoted cost to prepay the advance.
OFF-BALANCE SHEET ITEMS	
Commitments to originate loans	The fair value of commitments was estimated by calculating a theoretical gain or loss on the sale of a funded loan considering the difference between current levels of interest rates and the committed loan rates.
Letters of credit	The fair value of letters of credit was based on fees currently charged for similar agreements.
Loan servicing rights	The fair value for loan servicing rights was estimated based upon market and dealer quotes for the incremental price paid for a loan sold servicing released, adjusted for the age of the portfolio.
Outstanding firm and master commitments to purchase and sell loans and MBS	The fair value of these commitments are estimated based on the market and dealer quotes to terminate or fill the commitments.

SALE OF ARIZONA BRANCH OPERATIONS

In May 1993, the Bank signed a Definitive Agreement with World Savings and Loan Association (World) of Oakland, California, whereby World agreed to acquire the Bank's Arizona branch operations, including all related deposit liabilities of approximately $321 million. The transaction was approved by the appropriate regulatory authorities and closed in August 1993. As a result of the sale, the Bank recorded a $6.3 million loss, which included a write-off of $5.9 million in goodwill (excess of cost over net assets acquired) and $367,000 of other related net costs. The Bank sold $334 million of MBS to effect the sale of the Bank's Arizona-based deposit liabilities to World and to maintain the Bank's interest rate risk position. The sale of the securities resulted in a gain of $7.4 million ($4.9 million after tax) included in gain on sale of debt securities in the Consolidated Statements of Income. The final disposition resulted in an after-tax loss of approximately $1 million.

REGULATORY CAPITAL

Under FIRREA, thrifts must maintain minimum capital ratios of tangible capital equal to 1.5 percent of tangible assets, core capital equal to three percent of core assets and risk-based capital equal to eight percent of risk-based assets. In determining capital under the three standards, certain adjustments are required to be made to stockholder's equity. The Bank was in compliance with all three capital requirements as of December 31, 1993 and all prior years. A reconciliation of stockholder's equity, as shown in the accompanying

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA -- (CONTINUED)
Consolidated Statements of Financial Position, to the three capital standards and the Bank's resulting ratios are set forth in the table below (thousands of dollars):

	DECEMBER 31, 1993			DECEMBER 31, 1992		
	TANGIBLE	CORE	RISK-BASED	TANGIBLE	CORE	RISK-BASED
Stockholder's equity	$ 176,943	$ 176,943	$176,943	$ 161,586	$ 161,586	$ 161,586
Capital adjustments:						
Nonsupervisory goodwill	(42,464)	(42,464)	(42,464)	(50,570)	(50,570)	(50,570)
Supervisory goodwill	(27,037)	(14,422)	(14,422)	(28,809)	(7,227)	(7,227)
Real estate investments	--	--	(478)	(593)	(593)	(1,246)
General loan loss reserves	--	--	11,008	--	--	12,572
Regulatory capital	107,442	120,057	130,587	81,614	103,196	115,115
Minimum required capital	25,229	50,459	70,031	32,375	64,749	80,088
Excess	$ 82,213	$ 69,598	$ 60,556	$ 49,239	$ 38,447	$ 35,027
Regulatory capital ratio	6.39%	7.14%	14.92%	3.78%	4.78%	11.50%
Minimum required ratio	1.50	3.00	8.00	1.50	3.00	8.00
Excess	4.89%	4.14%	6.92%	2.28%	1.78%	3.50%
Asset base	$1,681,952	$1,681,952	$875,336	$2,158,313	$2,158,313	$1,001,094

The regulatory capital standards contain certain phase-in requirements concerning the amount of supervisory goodwill which is includable in core and risk-based capital as well as the amount of real estate investments which are required to be deducted from capital under all three standards. On January 1, 1994, the maximum supervisory goodwill includable in risk-based and core capital is limited to .375 percent of tangible assets. Based upon this limitation, the Bank's risk-based and core capital levels declined by $6.3 million on January 1, 1994.

The improvement in the Bank's capital ratios over prior year-end is principally the result of the Bank's net earnings, implementation of SFAS No. 115, lower asset base, and reduced level of goodwill. At December 31, 1993, under fully phased-in capital rules applicable at July 1, 1996, the Bank would have exceeded its fully phased-in tangible, core and risk-based capital requirements by $81.8 million, $56.6 million and $43.1 million, respectively.

The OTS has issued a regulation which will add a component to an institution's risk-based capital calculation in 1994. The regulation will require a reduction of an institution's risk-based capital by 50 percent of the decline in the institution's net portfolio value exceeding two percent of assets under a hypothetical 200 basis point increase or decrease in market interest rates. Based upon management's estimate of its interest rate risk exposure, the Bank will not be subjected to a reduction of its risk-based capital using data as of December 31, 1993.

FDICIA required the federal banking agencies to adopt regulations implementing a system of progressive constraints as capital levels decline at banks and savings institutions. The federal banking agencies have enacted uniform "prompt corrective action" rules which classify banks and savings institutions into one of five categories based upon capital adequacy, ranging from "well capitalized" to "critically undercapitalized." As of December 31, 1993, the Bank is categorized as "well capitalized" under the regulation.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 2 -- SUMMARIZED FINANCIAL STATEMENT DATA -- (CONTINUED)
OTHER REGULATORY MATTERS

In conjunction with the acquisition of the Bank in 1986, the Company agreed that as long as it controls the Bank, adequate capital as required by applicable regulations, will be maintained at the Bank and if required, the Company will infuse additional capital into the Bank to assure compliance with such requirements. Even though the Bank met all existing regulatory capital requirements, in October 1991, the Company committed to make an additional $20 million capital contribution to the Bank in order to further improve the Bank's capital position. Under this commitment, the Company contributed $10 million to the Bank in October 1991 and $10 million in February 1992, in exchange for common stock of the Bank. The Company does not anticipate making future capital contributions to the Bank.

Pursuant to the acquisition of the Bank by the Company, the OTS stipulated that dividends paid by the Bank to the Company could not exceed 50 percent of the Bank's cumulative net income after the date of acquisition. Since the acquisition, the Bank's cumulative net income is $29.5 million, resulting in maximum dividends payable of $14.7 million as of December 31, 1993. Since the acquisition, the Bank has paid the Company $1.8 million in capital distributions, net of the $20 million of capital contributions received from the Company.

Capital distributions, including dividends, are also governed by an OTS regulation which limits distributions by applying a tiered system based on capital levels. Under the regulation, the Bank is restricted to paying no more than 75 percent of its net income over the preceding four quarters to the Company. The Bank did not pay any dividends to the Company during the last three years.

In October 1991, the Bank entered into a Supervisory Agreement (the Agreement) with the OTS. Among other things, the Bank agreed to: retain competent management, improve the review and monitoring of problem assets, develop comprehensive business plans which support decisions concerning real estate development projects and foreclosed real estate, and reduce interest rate risk. In November 1993, the Agreement was terminated based upon corrective action taken by the Bank.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 3 -- DEBT SECURITIES

Debt securities held to maturity are stated at amortized cost. The yields are computed based upon amortized cost. The amortized cost, estimated fair values and yields of debt securities held to maturity are as follows (thousands of dollars):

DECEMBER 31, 1993	AMORTIZED COST	TOTAL UNREALIZED GAINS	TOTAL UNREALIZED LOSSES	ESTIMATED FAIR VALUE	YIELD
Corporate issue MBS	$ 69,660	$ 403	$1,325	$ 68,738	6.85 %
Total	$ 69,660	$ 403	$1,325	$ 68,738	6.85 %
DECEMBER 31, 1992					
GNMA - MBS	$ 12,222	$ 526	$ --	$ 12,748	8.40 %
FHLMC - MBS	629,225	12,076	257	641,044	6.00
FNMA - MBS	217,391	1,578	1,403	217,566	7.44
CMO	37,722	1,915	1,934	37,703	5.06
Corporate issue MBS	229,303	2,276	3,860	227,719	7.21
Money market instruments	100	--	--	100	5.50
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	15,996	131	29	16,098	5.64
Medium-term notes	17,018	105	--	17,123	6.61
Total	$1,158,977	$ 18,607	$7,483	$1,170,101	6.51 %

The following schedule of the expected maturity of debt securities held to maturity is based upon dealer prepayment expectations and historical prepayment activity (thousands of dollars):

DECEMBER 31, 1993	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS BUT WITHIN TWENTY YEARS	AFTER TWENTY YEARS	TOTAL AMORTIZED COST
Corporate issue MBS	$14,702	$34,665	$ 15,931	$ 3,566	$796	$69,660
Total	$14,702	$34,665	$ 15,931	$ 3,566	$796	$69,660

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 3 -- DEBT SECURITIES -- (CONTINUED)

Debt securities available for sale are stated at fair value at December 31, 1993 and at the lower of cost or fair value at December 31, 1992. The yields are computed based upon amortized cost. The amortized cost, estimated fair values and yields of debt securities available for sale are as follows (thousands of dollars):

DECEMBER 31, 1993	AMORTIZED COST	TOTAL UNREALIZED GAINS	TOTAL UNREALIZED LOSSES	ESTIMATED FAIR VALUE	YIELD
GNMA - MBS	$ 9,081	$ 591	$ --	$ 9,672	8.41 %
FHLMC - MBS	368,436	11,518	168	379,786	6.12
FNMA - MBS	119,208	1,144	695	119,657	6.60
CMO	45,733	1,516	--	47,249	4.82
Corporate issue MBS	24,644	159	697	24,106	5.81
Money market investments	10,036	--	--	10,036	3.37
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	5,110	110	--	5,220	5.93
Total	$ 582,248	$ 15,038	$1,560	$ 595,726	6.09 %
DECEMBER 31, 1992					
GNMA - MBS	$ 6,780	$ 144	$ --	$ 6,924	7.80 %
Total	$ 6,780	$ 144	$ --	$ 6,924	7.80 %

The following schedule reflects the expected maturity of MBS and CMO and the contractual maturity of all other debt securities available for sale. The expected maturity of MBS and CMO are based upon dealer prepayment expectations and historical prepayment activity (thousands of dollars):

DECEMBER 31, 1993	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS BUT WITHIN TWENTY YEARS	AFTER TWENTY YEARS	TOTAL ESTIMATED FAIR VALUE
GNMA - MBS	$ 4,050	$ 5,257	$ 328	$ 37	$ --	$ 9,672
FHLMC - MBS	120,630	221,834	27,475	9,558	289	379,786
FNMA - MBS	31,090	65,419	14,353	8,517	278	119,657
CMO	18,535	28,446	240	28	--	47,249
Corporate issue MBS	6,880	13,320	3,473	414	19	24,106
Money market instruments	10,036	--	--	--	--	10,036
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	--	5,220	--	--	--	5,220
Total	$191,221	$339,496	$ 45,869	$18,554	$586	$ 595,726

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 4 -- LOANS RECEIVABLE

Loans receivable held for investment, recorded at amortized cost, are summarized as follows (thousands of dollars):

	DECEMBER 31, 1993	DECEMBER 31, 1992
Loans collateralized by real estate:		
Conventional single-family residential	$431,854	$383,372
FHA and VA insured single-family residential	21,491	17,731
Commercial mortgage	192,046	198,235
Construction and land	82,638	91,344
	728,029	690,682
Commercial secured (other than real estate)	25,443	30,137
Commercial unsecured	354	384
Consumer installment	93,431	42,444
Consumer unsecured (including credit cards)	7,817	18,371
Equity and property improvement loans	21,061	16,712
Deposit accounts	2,944	4,248
	879,079	802,978
Undisbursed proceeds	(48,251)	(44,937)
Allowance for estimated credit losses	(16,251)	(17,228)
Premiums (discounts)	3,270	(125)
Deferred fees	(4,782)	(4,406)
Accrued interest	4,214	4,586
	(61,800)	(62,110)
Loans receivable held for investment	$817,279	$740,868

Loans receivable held for sale, recorded at lower of aggregate cost or market, are summarized as follows (thousands of dollars):

	DECEMBER 31, 1993	DECEMBER 31, 1992
Loans collateralized by single-family residential real estate:		
Conventional	$ 4,999	$ 12,604
FHA and VA insured	3,560	6,939
	8,559	19,543
Credit cards	11,492	--
Loans receivable held for sale	$ 20,051	$ 19,543
Additional loan information:		
Average portfolio yield at end of year	8.12%	9.07%
Principal balance of loans serviced for others (including loans serviced for MBS owned by the Bank of $92,658 and $144,834)	$476,835	$575,750
Adjustable-rate real estate loans	233,133	247,567
Outstanding commitments to originate loans	47,903	32,398
Unused lines of credit	79,472	68,817
Standby letters of credit	1,004	1,700

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 4 -- LOANS RECEIVABLE -- (CONTINUED)

Outstanding commitments to originate loans represent agreements to originate real estate secured loans to customers at specified rates of interest. Commitments generally expire in 45 to 60 days and may require payment of a fee. Some of the commitments are expected to expire without being drawn upon, therefore the total commitments do not necessarily represent future cash requirements.

The Bank has designated portions of its portfolio of residential real estate loans and credit card accounts as held for sale. These loans are carried at the lower of aggregate cost, market or sales commitment price. In January 1994, the Bank sold its credit card portfolio held for sale and recognized a gain of approximately $1.7 million.

The Bank's loan approval process is intended to assess both: (i) the borrower's ability to repay the loan by determining whether the borrower meets the Bank's established underwriting criteria, and (ii) the adequacy of the proposed security by determining whether the appraised value of the security property is sufficient for the proposed loan.

It is the general policy of the Bank not to make single-family residential loans when the loan-to-value ratio exceeds 80 percent unless the loans are insured by private mortgage insurance, FHA insurance or VA guarantee. Construction loans and commercial/income property loans are generally underwritten with a discounted loan-to-value ratio of less than 75 percent.

Management considers the above mentioned factors when evaluating the adequacy of the allowance for estimated credit losses.

Many of the Bank's adjustable-rate loans contain limitations as to both the amount the interest rate can change at each repricing date (periodic caps) and the maximum rates the loan can be repriced to over the life of the loan (lifetime caps). At December 31, 1993, periodic caps in the adjustable loan portfolio ranged from .25 percent to eight percent. Lifetime caps ranged from 9.75 percent to 22 percent.

NOTE 5 -- REAL ESTATE

Real estate held for sale or development includes the following (thousands of dollars):

	DECEMBER 31,	
	1993	1992
Real estate held for sale, development or investment.............	$>4,216	$ 3,011
Investments in and loans to real estate ventures.................	807	1,466
	5,023	4,477
Allowance for estimated real estate losses.......................	(935)	(1,463)
	$4,088	$ 3,014

During the third quarter of 1993, the Bank designated two Arizona branch facilities, not included as part of the sale to World, as real estate held for sale, development or investment. These facilities, with a net book value of $3.4 million at December 31, 1993, were previously included in premises and equipment.

The net realizable value of the real estate held for sale or development is dependent upon real estate values, the local economies, and real estate sales activity. Management evaluates the adequacy of the allowance for estimated real estate losses by incorporating these factors.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 5 -- REAL ESTATE -- (CONTINUED)

Pretax loss from real estate operations, excluding interest income on loans to real estate ventures, is summarized as follows (thousands of dollars):

	DECEMBER 31,		
	1993	1992	1991
Gain on sale of real estate	$ 491	$ 5,020	$ 5,360
Less expenses allocated (1):			
General and administrative	330	1,077	1,551
Interest	61	920	3,590
	100	3,023	219
Provisions for estimated real estate losses	(1,010)	(18,309)	(50,696)
Pretax loss from real estate operations	$ (910)	$(15,286)	$(50,477)

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(1) Allocated general and administrative expenses include labor and other costs incurred in the Bank's real estate operations. Interest is allocated based upon the Bank's average cost of funds devoted to such operations.

Summarized below is condensed financial information for the Bank's real estate ventures (thousands of dollars):

	DECEMBER 31,	
	1993	1992
ASSETS:		
Cash	$1,606	$ 1,722
Development costs	1,142	34,134
Other assets	1,490	2,893
	$4,238	$ 38,749
LIABILITIES:		
Loans from third parties	$ 483	$ 47,566
Other liabilities	2,784	15,152
	3,267	62,718
EQUITY:		
PriMerit Bank	807	1,466
Other investors	164	(25,435)
	971	(23,969)
	$4,238	$ 38,749

Beginning in 1987, the Bank participated in a real estate development project, Margarita Village Development Company (MVDC), as both lender and investor, to develop and build a 468 acre restricted community in Temecula, California. In December 1991, MVDC entered Chapter 11 bankruptcy proceedings. Due to significant legal and economic uncertainties, the Bank charged off its entire $32.2 million investment in and loan to MVDC in 1991. In 1993, an agreement was reached whereby the Bank assigned its interests as lender to the first trust deed holder and allowed the first trust deed holder to foreclose on the real estate owned by MVDC. In exchange, the first trust deed holder assumed certain liabilities of the Bank and MVDC, and the Bank received the right to receive a portion of future proceeds from the development and sale of the real estate. Management believes the Bank's ability to recover any of its advances to MVDC will depend largely on

NOTE 5 -- REAL ESTATE -- (CONTINUED)
favorable resolution of various pending legal uncertainties and the recovery of the residential sector of the California real estate market.

NOTE 6 -- ALLOWANCES FOR ESTIMATED CREDIT LOSSES

Activity in the allowances for losses on loans, real estate acquired through foreclosure and real estate held for sale or development is summarized as follows (thousands of dollars):

	MORTGAGE LOANS	CONSTRUCTION AND LAND LOANS	NON-MORTGAGE LOANS	TOTAL LOANS	REAL ESTATE ACQUIRED THROUGH FORECLOSURE	REAL ESTATE HELD FOR SALE OR DEVELOPMENT	OTHER	TOTAL
Balance at 12/31/90	$ 1,134	$ 1,299	$ 1,213	$ 3,646	$ 4,087	$ 4,158	$ 539	$ 12,430
Provisions for estimated losses	5,835	2,643	3,580	12,058	1,686	49,010	--	62,754
Charge-offs, net of recovery	(394)	(1,121)	(1,545)	(3,060)	(6,595)	(49,529)	(62)	(59,246)
Transfers	(583)	--	--	(583)	822	--	(239)	--
Balance at 12/31/91	5,992	2,821	3,248	12,061	--	3,639	238	15,938
Provisions for estimated losses	1,903	6,460	5,766	14,129	--	18,309	--	32,438
Charge-offs, net of recovery	(515)	(3,765)	(4,682)	(8,962)	--	(20,485)	--	(29,447)
Balance at 12/31/92	7,380	5,516	4,332	17,228	--	1,463	238	18,929
Provisions for estimated losses	4,634	172	1,406	6,212	--	1,010	--	7,222
Charge-offs, net of recovery	(3,191)	(2,248)	(1,750)	(7,189)	--	(1,538)	--	(8,727)
Balance at 12/31/93	$ 8,823	$ 3,440	$ 3,988	$16,251	$ --	$ 935	$ 238	$ 17,424

The Bank establishes allowances for estimated losses by portfolio through charges to expense. On a regular basis, management reviews the level of loss allowances which have been provided against the portfolios. Adjustments are made thereto in light of the level of problem loans and current economic conditions. Included in net charge-offs are $1.4 million, $1.9 million and $2.6 million of recoveries for 1991, 1992 and 1993, respectively.

Prior to the fourth quarter of 1991, the Bank established specific valuation allowances for identified probable losses on assets in its portfolio. During the fourth quarter of 1991, the Bank adopted a policy of charging off portions of these assets against the previously established specific valuation allowances and directly charging off any newly identified probable losses on specific assets, thus directly reducing the carrying value of the asset. Write-downs to fair value, disposition gains and losses, and operating income and costs affiliated with real estate acquired through foreclosure are charged to the allowance for estimated credit losses.

NOTE 7 -- DEPOSITS

Deposits are summarized as follows (thousands of dollars):

	DECEMBER 31, 1993	DECEMBER 31, 1992
Interest-bearing demand and money market deposits...	$ 324,011	$ 294,900
Noninterest-bearing demand deposits.................	64,797	87,986
Savings deposits..................................	86,781	79,151
Total transaction accounts...............	475,589	462,037
Certificates of deposit:		
** $100,000....................................	580,018	936,718
* $100,000....................................	152,245	223,409
Total certificates of deposit............	732,263	1,160,127
	$1,207,852	$1,622,164
Average annual interest rate at end of year.........	3.56%	4.49%

* Greater than or equal to.
** Less than.

The above balance includes $5.8 million deposited by the State of Nevada that is collateralized by real estate loans and debt securities with a fair value of approximately $8.8 million at December 31, 1993. Certificates of deposit include approximately $6.9 million of brokered deposits at December 31, 1992. At December 31, 1993, there were no brokered deposits.

Certificates of deposit maturity schedule (thousands of dollars):

	CERTIFICATES MATURING ON OR PRIOR TO DECEMBER 31, 1994	1995	1996	1997	1998	THEREAFTER
Interest Rate Category						
2.99% and lower...............	$ 66,243	$ 25	$ 32	$ --	$ 16	$ 5
3.00% to 3.99%...............	341,867	25,448	472	--	--	20
4.00% to 4.99%...............	20,111	40,303	10,778	793	2,079	5
5.00% to 5.99%...............	9,419	4,852	21,120	9,647	21,179	7,143
6.00% to 6.99%...............	2,552	594	2,718	26,081	434	5,093
7.00% to 7.99%...............	7,269	2,350	33,081	5,690	13	14,461
8.00% to 8.99%...............	7,267	30,914	74	--	--	123
9.00% and over...............	11,461	102	--	30	399	--
	$466,189	$104,588	$68,275	$42,241	$24,120	$ 26,850

NOTE 8 -- CASH EQUIVALENTS AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Cash Equivalents

Cash equivalents are stated at cost, which approximates fair value, and include the following (thousands of dollars):

	DECEMBER 31, 1993	DECEMBER 31, 1992
Securities purchased under resale agreements..................	$55,102	$66,000
Federal funds sold..	8,401	13,000
	$63,503	$79,000

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 8 -- CASH EQUIVALENTS AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS -- (CONTINUED)

Securities purchased under resale agreements of $55.1 million at December 31, 1993 and $66 million at December 31, 1992 matured within 24 days and 25 days, respectively, and called for delivery of the same securities. The collateral for these agreements consisted of debt securities which at December 31, 1993 and 1992 were held on the Bank's behalf by its safekeeping agents and safekeeping agents for various investment bankers. The securities purchased under resale agreements represented 31 percent of the Bank's stockholder's equity at December 31, 1993 and 41 percent at December 31, 1992.

The average amount of securities purchased under resale agreements outstanding during the years ended December 31, 1993 and 1992 were $26.6 million and $20.2 million, respectively. The maximum amount of resale agreements outstanding at any month end was $60 million during 1993 and $120 million during 1992.

Securities Sold Under Repurchase Agreements

The Bank sells securities under agreements to repurchase (reverse repurchase agreements). Reverse repurchase agreements are treated as borrowings and are reflected as liabilities in the accompanying Consolidated Statements of Financial Position. Reverse repurchase agreements are summarized as follows (thousands of dollars):

	DECEMBER 31,	
	1993	1992
Balance at year end	$259,041	$376,859
Accrued interest payable at year end	3,871	3,717
Daily average amount outstanding during year	305,123	204,222
Maximum amount outstanding at any month end	367,859	376,859
Weighted average interest rate during the year	4.30%	5.98%
Weighted average interest rate on year end balances	4.31	4.54

The Bank transacted $210 million in reverse repurchase agreements with Morgan Stanley & Co., Incorporated (primary dealer) in accordance with a long-term agreement. The agreement, which allows for a maximum borrowing of $400 million with no minimum, matures in July 1997. The interest rate on the borrowings is adjusted monthly based upon a spread over or under the one month London Interbank Offering Rate (LIBOR), dependent upon the underlying collateral.

The Bank is also party to three separate flexible reverse repurchase agreements (flex repos) totaling $49 million at December 31, 1993. A flex repo represents a long-term fixed-rate contract to borrow funds through the primary dealer, collateralized by MBS with a flexible repayment schedule. The principal balance of the Bank's flex repo agreements will decline over the stated maturity period based upon the counterparty's need for the funds.

Principal payments on flex repos at December 31, 1993 are projected as follows (thousands of dollars):

PROJECTED REPAYMENT	FLEX REPO-1	FLEX REPO-2	FLEX REPO-3
12 months	$ --	$12,000	$7,000
24 months	1,000	25,602	--
36 months	3,439	--	--
	$4,439	$37,602	$7,000
Maturity date	July 1996	June 1995	April 1994
Interest rate	8.86%	8.65%	8.33%

NOTE 8 -- CASH EQUIVALENTS AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS -- (CONTINUED)

Actual principal payments may differ from those shown above due to the actual timing of the funding being faster or slower than originally projected.

All agreements are collateralized by MBS and require the Bank to repurchase identical securities as those which were sold. The MBS collateralizing the agreements are reflected as assets with a carrying value of $18.1 million in excess of borrowing amount and a weighted average maturity of 3.12 years. All agreements were transacted with the primary dealer. Reverse repurchase agreements are collateralized as follows (thousands of dollars):

	DECEMBER 31,		
	1993	1992	
	BOOK/FAIR VALUE	BOOK VALUE	FAIR VALUE
MBS, including accrued interest of $2,620 and $3,574	$280,968	$399,955	$406,429

The Bank has entered into interest rate swap agreements as the fixed-rate payer to reduce the Bank's exposure to changes in interest rates. At December 31, 1993, the Bank was party to one interest rate swap agreement with a nationally recognized investment banking firm, having a total notional amount of $7.5 million with a remaining term of seven years. The agreement requires the Bank to make fixed-rate interest payments of 5.45 percent and in turn, the Bank receives floating interest payments based on the six month LIBOR, 3.55 percent at December 31, 1993. The interest rate swap agreement at December 31, 1993 is collateralized with MBS with a fair value of $254,000. During 1992, in conjunction with the restructuring of the Bank's balance sheet, through sale of long-term fixed-rate assets, $300 million (notional amount) of interest rate swaps hedging such assets were cancelled at a cost of $14.1 million, which is included as an expense in the accompanying Consolidated Statements of Income. In addition, $35 million (notional amount) of interest rate swaps matured during 1992. At December 31, 1992 no agreements were outstanding. The net expense on interest rate swaps of $24,000, $4.8 million, and $3.2 million in 1993, 1992 and 1991, respectively, was included in interest expense as a cost of hedging activities in the accompanying Consolidated Statements of Income.

During 1991 the Bank was party to two interest rate collars with nationally recognized investment banking firms, having a total notional principal amount of $400 million used to reduce the Bank's exposure to changes in interest rates. During 1991, the cost of such collars of $3.5 million was included in interest expense as a cost of hedging activities in the accompanying Consolidated Statements of Income. There were no interest rate collars outstanding during 1993 and 1992.

NOTE 9 -- COMMITMENTS AND CONTINGENCIES

Construction Program -- Capital expenditures for the year ending December 31, 1994 are estimated at $119 million.

Leases and Rentals -- The Company leases a portion of its corporate headquarters office complex in Las Vegas and the LNG facilities on its northern Nevada system. The leases provide for initial terms which expire in 1997 and 2003, respectively, with optional renewal terms available at the expiration dates. The rental payments are $3.1 million annually, and $10.8 million in the aggregate over the remaining initial term for the Las Vegas facility, and $6.7 million annually and $63.3 million in the aggregate for the LNG facilities.

Rentals included in operating expenses with respect to these leases amounted to $9.8 million in each of the three years in the period ended December 31, 1993. Both of these leases are accounted for as operating

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 9 -- COMMITMENTS AND CONTINGENCIES (CONTINUED)
leases and are treated as such for regulatory purposes. Other operating leases of the Company are immaterial individually and in the aggregate.

The Bank leases certain of its facilities under noncancelable operating lease agreements. The more significant of these leases expire between 1994 and 2029 and provide for renewals subject to certain escalation clauses. Net rental expense for the Bank was $3.1 million in 1993, $3 million in 1992 and $2.5 million in 1991.

The following is a schedule of net future minimum rental payments for the Bank under various operating lease agreements that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1993 (thousands of dollars):

	TOTAL MINIMUM LEASE PAYMENTS	TOTAL MINIMUM SUBLEASE RECEIPTS	NET MINIMUM LEASE PAYMENTS
Year Ending December 31:			
1994	$ 5,087	$1,930	$ 3,157
1995	5,026	1,415	3,611
1996	4,988	1,296	3,692
1997	4,950	1,042	3,908
1998	4,602	880	3,722
Thereafter	50,577	1,528	49,049
	$75,230	$8,091	$67,139

Legal Proceedings -- The Company has been named as defendant in various legal proceedings. The ultimate dispositions of these proceedings are not presently determinable; however, it is the opinion of management that no litigation to which the Company is subject will have a material adverse impact on its financial position or results of operations.

NOTE 10 -- SHORT-TERM DEBT

The Company has agreements with several banks for committed credit lines which aggregate $110 million at December 31, 1993. The agreements provide for the payment of interest at competitive market rates. The lines of credit also require the payments of facility fees based on the long-term debt rating of the Company. The committed credit lines have no compensating balance requirements and expire in July 1994. At December 31, 1993, $86 million of short-term borrowings were outstanding.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 11 -- LONG-TERM DEBT

	DECEMBER 31,			
	1993 CARRYING AMOUNT	1993 MARKET VALUE	1992 CARRYING AMOUNT	1992 MARKET VALUE
	(THOUSANDS OF DOLLARS)			
Southwest Gas Corporation Debentures --				
9% Series A, due 2011	$ 27,688	$ 28,795	$ 28,977	$ 27,466
9% Series B, due 2011	31,944	33,222	33,121	31,392
8 3/4% Series C, due 2011	19,699	20,487	20,623	19,101
9 3/8% Series D, due 2017	120,000	126,826	120,000	116,352
10% Series E, due 2013	23,127	24,283	23,129	23,945
9 3/4% Series F, due 2002	100,000	116,596	100,000	104,310
Unamortized discount	(7,220)	--	(7,704)	--
	315,238	350,209	318,146	322,566
Term loan facilities	165,000		165,000	
Industrial development revenue bonds --				
Variable rate bonds				
Series due 2028	50,000	50,000	--	--
Less funds held in trust	(44,055)	--	--	--
	5,945			
Fixed-rate bonds				
7.30% 1992 Series A, due 2027	30,000	33,450	30,000	30,703
7.50% 1992 Series B, due 2032	100,000	112,000	100,000	102,000
6.50% 1993 Series A, due 2033	75,000	79,500	--	--
Unamortized discount	(3,969)	--	(2,450)	--
Less funds held in trust	(73,614)	--	(15,968)	--
	127,417		111,582	
Other	--	--	155	--
	613,600		594,883	
PriMerit Bank				
Advances from FHLB	71,000	71,281	16,000	16,563
Notes payable	8,265	8,647	18,640	19,219
Unsecured senior notes	--	--	25,000	25,525
	79,265		59,640	
	$ 692,865		$ 654,523	

In December 1993, the Company borrowed $75 million in Clark County, Nevada, tax-exempt IDRB. The IDRB have an annual coupon rate of 6.50 percent, are noncallable for 10 years and have a final maturity in December 2033. The proceeds from the sale of the IDRB will be used to finance certain additions and improvements to the Company's natural gas distribution and transmission system in Clark County, Nevada.

In December 1993, the Company borrowed $50 million in City of Big Bear Lake, California, tax-exempt IDRB. The IDRB bear interest at a variable rate and have a final maturity in December 2028. The interest rate as of December 31, 1993 was 3.15 percent. The proceeds from the sale of the IDRB will be used to

NOTE 11 -- LONG-TERM DEBT -- (CONTINUED)
finance certain additions and improvements to the Company's natural gas distribution and transmission system in San Bernardino County, California.

The Company has two term loan facilities totaling $165 million. The fair value of these term loan facilities approximates carrying value. The first term loan facility is a Restated and Amended Credit Agreement dated April 1990 in the amount of $125 million which provides for a revolving period through April 1995 at which time any amounts borrowed under the agreement become payable on demand. Direct borrowing options provide for the payment of interest at either the prime rate, LIBOR, or a certificate of deposit rate plus a margin based on the Company's credit rating. In addition to direct borrowing options, a letter of credit is available to provide credit support for the issuance of commercial paper. At December 31, 1993 and 1992, there was $125 million of commercial paper outstanding. During 1993 and 1992, the average cost of this facility was 3.89 percent and 4.45 percent, respectively.

The second term loan facility is an Amended and Restated Domestic Credit Agreement dated December 1986 in the original amount of $80 million with a final maturity in December 1994. The first $40 million principal payment was made in June 1992. The final principal payment is due at maturity. The agreement provides for the payment of interest at either the prime rate, a certificate of deposit based rate, or a LIBOR based rate, and the payment of a commitment fee equal to 3/8 of one percent of the unused portion of the commitment. During 1993 and 1992, the average interest rates were 3.80 percent and 4.84 percent, respectively.

Market values for long-term debt of the Company, excluding the Bank, were determined based on dealer quotes using trading records for December 31, 1993 and 1992, as applicable, and other secondary sources which are customarily consulted for data of this kind. The carrying value of the IDRB Series due 2028 was used as the estimate of fair value based upon the variable interest rate of the bonds.

Requirements to retire long-term debt, excluding those of the Bank, at December 31, 1993 for the next five years are expected to be $45 million, $130 million, $5 million, $5 million, and $11 million, respectively.

Principal payments on Bank borrowings at December 31, 1993 are due as follows (thousands of dollars):

MATURITY	INTEREST RATE	ADVANCES FROM FHLB	NOTES PAYABLE
12 months	8.00%	$ --	$ 130
24 months	4.30%-8.20	50,000	140
36 months	4.40 -8.50	10,000	7,995
48 months	8.23	6,000	--
60 months	5.01	5,000	--
		$71,000	$ 8,265

Coupon interest rates on Bank borrowings are as follows:

	DECEMBER 31, 1993	DECEMBER 31, 1992
Advances from FHLB	4.30%-8.23%	8.23%-9.21%
Notes payable	8.00 -8.50	7.75 -8.50
Unsecured senior notes	--	9.93

The effective rate of the advances from the FHLB at December 31, 1993 was 4.70 percent.

NOTE 11 -- LONG-TERM DEBT -- (CONTINUED)

In 1992, the FHLB established a Financing Availability for the Bank which is currently 20 percent of the Bank's assets with terms up to 120 months. All borrowings from the FHLB must be collateralized by mortgages or securities. In December 1993, the Bank obtained the capability of borrowing up to $5 million in federal funds from Bank of America. At December 31, 1993, no funds had been drawn from this line of credit which expires in August 1994.

Bank borrowings are collateralized as follows (thousands of dollars):

	DECEMBER 31,			
	1993		1992	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
MBS	$ 14,797	$ 14,797	$30,172	$31,476
Real estate loans	98,860	71,000	22,238	16,000
FHLB stock	16,501	16,501	16,953	16,953
	$130,158	$102,298	$69,363	$64,429

NOTE 12 -- PREFERRED AND PREFERENCE STOCKS

	CUMULATIVE PREFERRED STOCK	SECOND PREFERENCE STOCK		
	9.5% SERIES	FIRST SERIES	SECOND SERIES	THIRD SERIES
NUMBER OF SHARES (In thousands):				
Balance, December 31, 1990	72	30	66	130
Redemptions	(8)	(10)	(22)	(32)
Balance, December 31, 1991	64	20	44	98
Redemptions	(8)	(10)	(22)	(33)
Balance, December 31, 1992	56	10	22	65
Redemptions	(8)	(10)	(22)	(33)
Balance, December 31, 1993	48	--	--	32
AMOUNT (In thousands):				
Balance, December 31, 1990	$7,200	$ 3,000	$ 6,600	$13,032
Redemptions	(800)	(1,000)	(2,200)	(3,258)
Balance, December 31, 1991	6,400	2,000	4,400	9,774
Redemptions	(800)	(1,000)	(2,200)	(3,258)
Balance, December 31, 1992	5,600	1,000	2,200	6,516
Redemptions	(800)	(1,000)	(2,200)	(3,258)
Balance, December 31, 1993	$4,800	$ --	$ --	$ 3,258

The Company is authorized to issue up to 500,000 shares each of its Cumulative Preferred and Second Preference Stock, respectively. The Company is required to redeem 8,000 shares annually, through 1999, of the $100 Cumulative Preferred Stock, 9.5 percent Series. The Company is required to redeem the remaining 32,580 shares of its Second Preference Stock, Third Series, in 1994. All outstanding Cumulative Preferred and Second Preference Stock shares are redeemable by the Company at any time at par plus accrued dividends.

Requirements for the next five years to redeem preferred and preference stock outstanding at December 31, 1993 amount to $4.1 million in 1994, and $800,000 in each year for 1995 through 1998.

NOTE 12 -- PREFERRED AND PREFERENCE STOCKS -- (CONTINUED)

The dividend rate on the Second Preference Stock is cumulative and varies from three percent to 16 percent, based on a formula tied to operating results with respect to the gas distribution system purchased from APS. During each of the last three years, the dividend rate was three percent.

The estimated fair value of the Company's Cumulative Preferred Stock at December 31, 1993 and 1992 is $5 million and $5.6 million, respectively. These figures are based on a yield-to-maturity of 8.14 percent and 9.53 percent, respectively, and a required redemption of 8,000 shares per year. Since this issue is not traded, yield-to-maturity was estimated based on the weighted average yield-to-maturity of the Company's outstanding debentures, adjusted for historical spreads between Moody's Baa rated utility debt, and Baa utility preferred stock issues.

The Company's Second Preference Stock is solely owned by APS, and is not publicly traded. These issues have a final redemption, at par, in December 1994, and they can be redeemed at par on any quarterly interest payment date. Due to the unique nature of these issues, no ready market exists to trade the securities. Consequently, for purposes of valuation, fair value is estimated to approximate book value.

The Articles of Incorporation provide that in the event of involuntary liquidation, (i) before distributions may be made to holders of any other class of stock, holders of the Cumulative Preferred Stock are entitled to payment at par value, together with any accumulated and unpaid dividends, and (ii) before distributions may be made to holders of common stock, the holder of the Second Preference Stock is entitled to payment at par value, together with any accumulated and unpaid dividends.

NOTE 13 -- EMPLOYEE POSTRETIREMENT BENEFITS

The Company has separate retirement plans covering the employees of its natural gas operations and financial services segments. Both plans are noncontributory with defined benefits, and cover substantially all employees. It is the Company's policy to fund the plans at not less than the minimum required contribution nor more than the tax deductible limit. Plan assets consist of investments in common stock, corporate bonds, government obligations, real estate, an insurance company contract and cash or cash equivalents.

The plan covering the natural gas operations provides that an employee may earn benefits for a period of up to 30 years and will be vested after 5 years of service. Retirement plan costs were $6.6 million, $6.1 million and $5.5 million, respectively, for each of the three years ended December 31, 1993, 1992 and 1991, respectively.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- EMPLOYEE POSTRETIREMENT BENEFITS -- (CONTINUED)

The following table sets forth, for the gas segment, the plan's funded status and amounts recognized on the Company's consolidated statements of financial position and statements of income. The cost and liability of the financial services plan are not significant.

	DECEMBER 31,	
	1993	1992
	(THOUSANDS OF DOLLARS)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $(90,267) and $(65,379), respectively	$ (98,926)	$ (76,306)
Projected benefit obligation for service rendered to date	$(141,694)	$(113,180)
Market value of plan assets	126,433	114,272
	(15,261)	1,092
Unrecognized net transition obligation being amortized through 2004	8,326	9,163
Unrecognized net loss (gain)	6,389	(10,339)
Unrecognized prior service cost	903	809
Prepaid retirement plan asset included in the Consolidated Statements of Financial Position	$ 357	$ 725
Assumptions used to develop pension obligations were:		
Discount rate	7.25%	8.25%
Long-term rate of return on assets	8.75	8.75
Rate of increase in compensation levels	4.75	5.25

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(THOUSANDS OF DOLLARS)		
Net retirement plan costs include the following components:			
Service cost	$ 6,339	$ 5,111	$ 4,510
Interest cost	9,213	8,585	7,745
Actual return on plan assets	(8,853)	(6,406)	(19,312)
Net amortization and deferrals	(67)	(1,174)	12,515
Net periodic retirement plan cost	$ 6,632	$ 6,116	$ 5,458

In addition to the basic retirement plans, the Company has separate unfunded supplemental retirement plans for its natural gas operations and financial services segments, which are limited to certain officers. The gas segment's plan is noncontributory with defined benefits. Senior officers who retire with ten years or more of service with the Company are eligible to receive benefits. Other officers who retire with 20 years or more of service with the Company are eligible to receive benefits. Plan costs were $1.5 million, $1.5 million and $1.1 million for each of the three years ended December 31, 1993, 1992 and 1991, respectively. The accumulated benefit obligation of the plan was $13.9 million, including vested benefits of $12.7 million, at December 31, 1993. The cost and liability of the financial services supplemental retirement plan are not significant. The Company also has an unfunded retirement plan for directors not covered by the employee retirement plan. The cost and liability for this plan are not significant.

The Company has a deferred compensation plan for all officers and members of the Board. The plan provides the opportunity to defer from a minimum of $2,000 up to 50 percent of annual compensation. The Company matches one-half of amounts deferred up to six percent of an officer's annual salary. Payments of compensation deferred, plus interest, commence upon the participant's retirement in equal monthly

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- EMPLOYEE POSTRETIREMENT BENEFITS -- (CONTINUED)
installments over 10, 15 or 20 years, as determined by the Company. Deferred compensation earns interest at a rate determined each January. The interest rate represents 150 percent of Moody's Seasoned Corporate Bond Index.

The Employees' Investment Plan (401k) provides for purchases of the Company's common stock or certain other investments by eligible gas segment employees through deductions of up to 16 percent of base compensation, subject to IRS limitations. The Company matches one-half of amounts deferred up to six percent of an employee's annual compensation. The cost of the plan was $1.9 million, $1.7 million and $1.6 million for each of the three years ended December 31, 1993, 1992 and 1991, respectively. The Bank has a separate 401k plan which provides for purchases of certain securities by eligible employees through deductions of up to ten percent of base compensation, subject to IRS limitations. The Bank matches one-half of amounts deferred up to six percent of employee base compensation. The cost of this plan is not significant.

At December 31, 1993, 748,448 common shares were reserved for issuance under provisions of the Employee Investment Plan and the Company's Dividend Reinvestment and Stock Purchase Plan. During 1993, the Company purchased shares of common stock in the open market and issued original common shares to meet the requirements of these plans.

The Company provides postretirement benefits other than pensions (PBOP) to its qualified gas segment retirees for health care, dental and life insurance. The Bank does not provide PBOP to its retirees. In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The statement requires the Company to account for PBOP on an accrual basis rather than reporting these benefits on a pay-as-you-go basis. The Company adopted SFAS No. 106 in January 1993. The PSCN, CPUC and FERC have approved the use of SFAS No. 106 for ratemaking purposes, subject to certain conditions, including funding. The Company did not receive approval to recover PBOP costs on an accrual basis in its Arizona rate jurisdictions, but was authorized to continue to recover the pay-as-you-go costs for ratemaking purposes. The Company plans to begin funding the non-Arizona portion of the PBOP liability in 1994.

The following table sets forth, for the gas segment, the PBOP funded status and amounts recognized on the Company's consolidated statements of financial position and statements of income.

	DECEMBER 31, 1993
	(THOUSANDS OF DOLLARS)
Accumulated postretirement benefit obligation	
Retirees	$ (14,035)
Fully eligible actives	(1,649)
Other active participants	(5,164)
Total	(20,848)
Plan assets	--
Unrecognized transition obligation	16,472
Unrecognized prior service cost	--
Unrecognized loss	2,659
Accrued postretirement benefit liability	$ (1,717)

Assumptions used to develop postretirement benefit obligations were:

Discount rate	7.25%
Medical inflation	12% graded to 5%
Salary increases	4.75%

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- EMPLOYEE POSTRETIREMENT BENEFITS -- (CONTINUED)

	YEAR ENDED DECEMBER 31, 1993
	(THOUSANDS OF DOLLARS)
Net periodic postretirement benefit costs include the following components:	
Service cost	$ 346
Interest cost	1,394
Actual return on plan assets	--
Net amortization and deferrals	867
Net periodic postretirement benefit cost	$2,607

The Company makes fixed contributions, based on age and years of service, to retiree spending accounts for the medical and dental costs of employees who retire after 1988. The Company pays up to 100 percent of the medical coverage costs for employees who retired prior to 1989. The medical inflation assumption in the table above applies to the benefit obligations for pre-1989 retirees only. This inflation assumption was estimated at 12 percent for 1993 and decreases one percent per year until 1997 and one-half of one percent per year until 2003, at which time the annual increase is projected to be five percent. A one percent increase in these assumptions would change the accumulated postretirement benefit obligation by approximately $1.1 million and the 1994 annual benefit cost by approximately $160,000.

NOTE 14 -- INCOME TAXES

Effective January 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes." The statement requires the use of the asset and liability approach for financial reporting of income taxes. As permitted under SFAS No. 109, prior years' financial statements have not been restated. The cumulative effect of adopting this statement was an increase in net deferred income tax liabilities of $11.7 million, an increase in net regulatory assets of $14.7 million and an increase in net income of $3 million.

Income tax expense (benefit) consists of the following (thousands of dollars):

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Current:			
Federal	$ (402)	$13,879	$ 16,942
State	700	1,982	2,108
	298	15,861	19,050
Deferred:			
Federal	10,128	(1,350)	(17,573)
State	833	(38)	(836)
	10,961	(1,388)	(18,409)
Total income tax expense	$11,259	$14,473	$ 641

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 14 -- INCOME TAXES -- (CONTINUED)

Deferred income tax expense (benefit) consists of the following significant components (thousands of dollars):

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Deferred federal and state:			
Real estate/loan loss provisions	$11,912	$(5,667)	$(12,221)
Property-related items	552	393	5,317
Energy cost adjustments	3,804	(132)	(6,970)
Loan fees and discounted interest	425	(1,030)	(1,490)
Unearned revenues	(865)	--	--
Self insurance	(691)	444	(401)
CMO	827	(544)	(218)
Customer refunds	--	5,275	2,192
All other deferred	(4,154)	706	(3,641)
Total deferred federal and state	11,810	(555)	(17,432)
Deferred investment tax credit, net	(849)	(833)	(977)
Total deferred income tax expense (benefit)	$10,961	$(1,388)	$(18,409)

The consolidated effective income tax rate for each of the three years in the period ended December 31, 1993 varies from the federal statutory income tax rate. The sources of these differences and the effect of each are summarized as follows:

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Federal statutory income tax (benefit) rate	35.0%	34.0%	(34.0)%
Net state tax liability	3.9	5.8	4.1
Property-related items	4.8	4.0	12.5
Bad debt deduction	--	(7.7)	(49.6)
Purchase accounting adjustments	--	(0.3)	(0.5)
Goodwill amortization	14.6	4.4	10.4
Provision for estimated loan loss	--	14.9	66.6
Tax credits	(3.6)	(2.7)	(7.0)
Tax exempt interest	(0.7)	(0.3)	(0.2)
Effect of Internal Revenue Service examination	(4.8)	--	--
All other differences	(1.5)	(7.1)	2.4
Consolidated effective income tax rate	47.7%	45.0%	4.7%

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 14 -- INCOME TAXES -- (CONTINUED)

Deferred tax assets and liabilities consisted of the following (thousands of dollars):

	YEAR ENDED DECEMBER 31,	
	1993	1992
Deferred tax assets:		
Deferred income taxes for future amortization of ITC	$ 14,312	$ --
Allowance for estimated loan losses	5,785	--
Real estate held for sale	4,865	17,213
Employee benefits	3,699	1,955
Other	5,974	7,524
Valuation allowance	--	--
	34,635	26,692
Deferred tax liabilities:		
Property-related items, including accelerated depreciation	90,652	89,469
Property-related items previously flowed-through	31,083	--
Unamortized ITC	22,992	23,854
Regulatory balancing accounts	20,218	17,594
Securities available for sale	4,717	--
Debt-related costs	4,396	4,577
Other	12,135	11,871
	186,193	147,365
Net deferred tax liabilities	$151,558	$120,673

Prior to 1981, federal income tax expense for the gas segment was reduced to reflect additional depreciation and other deductions claimed for income tax purposes (flow-through method). Subsequently, deferred taxes have been provided for all differences between book and taxable income (normalization method) in all jurisdictions. The various utility regulatory authorities have consistently allowed the recovery of previously flowed-through income tax benefits on property related items by means of increased federal income tax expense in determining cost of service for ratemaking purposes. Pursuant to SFAS No. 109, a deferred tax liability and corresponding regulatory asset of approximately $31 million are included in the financial statements to reflect the expected recovery of income tax benefits previously flowed-through.

In August 1993, President Clinton signed into law the Omnibus Budget Reconciliation Act of 1993 (the Act). The Act increased the federal income tax rate for corporations from 34 percent to 35 percent, retroactive to January 1, 1993. As a result of the increase, the Company recognized additional net deferred income tax liabilities and associated net regulatory assets at December 31, 1993, of approximately $4.5 million. The Company anticipates full recovery of the additional regulatory assets. The increase in net deferred income tax liabilities related to the Company's nonregulated operations was not significant.

For financial reporting purposes, the Company has deferred recognition of investment tax credits (ITC) by amortizing the benefit over the depreciable lives of the related properties. Pursuant to SFAS No. 109, a deferred tax asset and corresponding regulatory liability of approximately $14.3 million are included in the financial statements to reflect the Company's expected reduction to future income tax expense that will result from the amortization of ITC through utility rates.

Under the Internal Revenue Code, the Bank is allowed a special bad debt deduction (unrelated to the amount of losses charged to earnings) based on a percentage of taxable income (currently eight percent).

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 14 -- INCOME TAXES -- (CONTINUED)
Under SFAS No. 109, no deferred taxes are provided on bad debt reserves arising prior to December 31, 1987, unless it becomes apparent that these differences will reverse in the foreseeable future. At December 31, 1993, the portion of tax bad debt reserves not expected to reverse was $13.4 million, which resulted in a retained earnings benefit of $4.5 million, recognized in years prior to 1988.

NOTE 15 -- SEGMENT INFORMATION

The financial information pertaining to the Company's gas and financial services segments for each of the three years in the period ended December 31, 1993, is as follows (thousands of dollars):

	1993			
		FINANCIAL SERVICES		
	GAS OPERATIONS	BANKING	REAL ESTATE	TOTAL
Revenues	$ 539,105	$ 150,636	$ 100	$ 689,841
Operating expenses excluding income taxes	461,423	139,830	1,010	602,263
Operating income (loss)	$ 77,682	$ 10,806	$ (910)	$ 87,578
Depreciation, depletion and amortization	$ 55,088	$ 8,495	$ --	$ 63,583
Construction expenditures	$ 113,903	$ 1,521	$ --	$ 115,424
Identifiable assets	$1,194,679	$1,737,624	$ 13,795	$2,946,098

	1992			
		FINANCIAL SERVICES		
	GAS OPERATIONS	BANKING	REAL ESTATE	TOTAL
Revenues	$ 534,390	$ 181,070	$ 3,023	$ 718,483
Operating expenses excluding income taxes	448,815	175,511	18,309	642,635
Operating income (loss)	$ 85,575	$ 5,559	$ (15,286)	$ 75,848
Depreciation, depletion and amortization	$ 52,277	$ 8,391	$ --	$ 60,668
Construction expenditures	$ 102,517	$ 3,078	$ --	$ 105,595
Identifiable assets	$1,103,794	$2,210,232	$ 27,502	$3,341,528

	1991			
		FINANCIAL SERVICES		
	GAS OPERATIONS	BANKING	REAL ESTATE	TOTAL
Revenues	$ 565,010	$ 229,562	$ 219	$ 794,791
Operating expenses excluding income taxes	498,753	216,239	50,696	765,688
Operating income (loss)	$ 66,257	$ 13,323	$ (50,477)	$ 29,103
Depreciation, depletion and amortization	$ 47,140	$ 8,209	$ --	$ 55,349
Construction expenditures	$ 76,871	$ 4,192	$ --	$ 81,063
Identifiable assets	$1,106,917	$2,313,102	$ 42,955	$3,462,974

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 16 -- QUARTERLY FINANCIAL DATA (UNAUDITED)

CONSOLIDATED
QUARTERLY FINANCIAL DATA

	QUARTER ENDED:			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
	(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)			
1993				
Operating revenues	$ 220,561	$137,971	$ 126,244	$205,065
Operating income (loss)	35,937	(5,401)	(257)	57,299
Net income (loss) before cumulative effect of accounting change	14,081	(13,072)	(7,344)	18,696
Net income (loss)	17,126	(13,072)	(7,344)	18,696
Net income (loss) applicable to common stock	16,920	(13,275)	(7,538)	18,558
Earnings (loss) per share before cumulative effect of accounting change	.67	(.64)	(.37)	.90
Earnings (loss) per common share*	.82	(.64)	(.37)	.90
1992				
Operating revenues	$ 240,646	$144,291	$ 125,229	$208,317
Operating income (loss)	36,868	(5,107)	(5,628)	49,715
Net income (loss)	14,808	(10,447)	(11,395)	24,695
Net income (loss) applicable to common stock	14,535	(10,718)	(11,656)	24,449
Earnings (loss) per common share*	.71	(.52)	(.57)	1.19
1991				
Operating revenues	$ 256,173	$171,756	$ 146,443	$220,419
Operating income (loss)	26,071	(34,448)	(3,425)	40,905
Net income (loss)	5,623	(28,296)	(7,639)	16,137
Net income (loss) applicable to common stock	5,282	(28,637)	(7,973)	15,828
Earnings (loss) per common share*	.26	(1.41)	(.39)	.78

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* The sum of quarterly earnings (loss) per average common share may not equal the annual earnings (loss) per share due to the ongoing change in the weighted average number of common shares outstanding.

The demand for natural gas is seasonal, and it is management's opinion that comparisons of earnings for the interim periods do not reliably reflect overall trends and changes in the Company's operations. Also, the timing of general rate relief can have a significant impact on earnings for interim periods. See MD&A for additional discussion of the Company's operating results.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 16 -- QUARTERLY FINANCIAL DATA (UNAUDITED) -- (CONTINUED)

BANK
QUARTERLY FINANCIAL DATA

	QUARTER ENDED:			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
	(THOUSANDS OF DOLLARS)			
1993				
Interest income	$ 35,997	$ 34,976	$31,881	$ 29,471
Interest expense	22,240	20,906	17,267	14,663
Provision for estimated losses	1,361	1,397	2,782	1,682
Net income (loss) before cumulative effect of accounting change	609	(4,717)	5,341	2,318
Net income (loss)	3,654	(4,717)	5,341	2,318
1992				
Interest income	$ 47,552	$ 44,910	$37,818	$ 35,398
Interest expense	33,041	30,933	25,315	22,628
Provision for estimated losses	14,277	8,625	5,240	4,296
Net income (loss)	(4,897)	(3,890)	(1,557)	526
1991				
Interest income	$ 59,083	$ 53,899	$50,941	$ 50,068
Interest expense	43,887	39,910	38,713	36,278
Provision for estimated losses	18,608	37,824	1,509	4,813
Net income (loss)	(10,337)	(20,467)	1,362	1,042

NOTE 17 -- SUBSEQUENT EVENT -- ARIZONA PIPE REPLACEMENT PROGRAM DISALLOWANCES

Arizona Rate Cases. In August 1990, the ACC issued its opinion and order (Decision No. 57075) on the Company's 1989 general rate increase requests applicable to the Company's Central and Southern Arizona Divisions. Among other things, the order stated that $16.7 million of the total capital expenditures incurred as part of the Company's Central Arizona Division pipe replacement program were disallowed for ratemaking purposes and all costs incurred as part of the Company's Southern Arizona Division pipe replacement program were excluded from the rate case and rate consideration was deferred to the Company's next general rate application, which was filed in November 1990.

In October 1990, the Company filed a Complaint in the Superior Court of the State of Arizona, against the ACC, to seek a judgement modifying or setting aside this decision. In February 1991, the Company filed a Motion for Summary Judgement in the Superior Court to seek a judgement summarily determining that Decision No. 57075 of the ACC is unreasonable and unlawful and, in accordance with that determination, modifying or setting aside Decision No. 57075 and allowing the Company to establish and collect reasonable, temporary rates under bond, pending the establishment of reasonable and lawful rates by the Commission. In June 1991, the Court affirmed the ACC's rate order without explanation or opinion. In August 1991, the Company appealed to the Arizona Court of Appeals from the Superior Court's judgement. In April 1993, Division Two of the Arizona Court of Appeals issued a Memorandum Decision affirming the ACC's opinion and order. Based on this decision, the Company filed a Motion for Reconsideration in the Court of Appeals in May 1993. The Motion for Reconsideration was denied and the Company, in July 1993, filed a Petition for Review with the Arizona Supreme Court. On February 25, 1994, immediately following the denial of the

NOTE 17 -- SUBSEQUENT EVENT -- ARIZONA PIPE REPLACEMENT PROGRAM DISALLOWANCES -- (CONTINUED)

Petition for Review by the Arizona Supreme Court, the Court of Appeals issued its Mandate ordering the Company to comply with its April 1993 Memorandum Decision.

As a result of the Arizona Court of Appeals Division Two Mandate, the Company has written off $15.9 million in gross plant related to the central and southern Arizona pipe replacement program disallowances. The impact of these disallowances, net of accumulated depreciation, tax benefits and other related items, was a non-cash reduction to 1993 net income of $9.3 million, or $0.44 per share. Discussions relative to each replacement program follows.

Central Arizona Division

In November 1984, the Company acquired all of the gas utility assets of Arizona Public Service Company (APS) for $111 million, which was $31 million less than net book value. By Order dated May 30, 1984, the ACC authorized the Company to include the acquired gas assets in the Company's rate base at the same original cost (irrespective of the Company's purchase price) assigned to such assets for ratemaking purposes in the last APS gas general rate case prior to the November closing. At the same time, the Company committed to replace certain distribution pipe purchased from APS because the pipe was aging prematurely, and thus was not adequate to meet long-term safety requirements. The Company invested $123 million in the central Arizona pipe replacement program. The project was completed, under budget, in 1991.

In Decision No. 57075, the ACC found that at the time it authorized the Company to acquire the APS assets, it was aware of the cost estimates of the Company's pipe replacement program; the Company's management and implementation of the replacement program had been sound; and there were no allegations of imprudence in connection with the replacement program. Despite these findings, the ACC disallowed a total of $16.7 million of the Company's capital expenditures pertaining to the pipe replacement program. This disallowance was reduced to $14.6 million in August 1993.

The Company maintained that the reasons implicit in the ACC's decision to cause the disallowance of a portion of the costs of the pipe replacement program were erroneous and led to the denial of rate base treatment -- a result which is contrary to the Arizona Constitution, statutes and existing case law. Prior Commissions approved the terms and conditions, including the purchase price, for the acquisition of the APS system. The Company had continuously kept the ACC informed of the progress, including the costs, of the replacement program. In addition, existing case law in Arizona makes the purchase price immaterial for ratemaking purposes. The Arizona Constitution requires the ACC to first establish a rate base by finding the fair value of a utility company's property, and existing case law provides that a utility is entitled to earn a fair and reasonable rate of return on its system that is used and useful in the service of the public. The Company believed that the disallowance was illegal and, therefore, had not previously written off any plant assets.

Southern Arizona Division

In April 1979, the Company acquired all of the gas utility assets of TEP. As part of the purchase agreement, TEP warranted that the gas facilities had been properly installed according to applicable codes. The Company replaced certain distribution pipe purchased from TEP and it was the Company's contention that, unbeknown to the Company at the time of acquisition, TEP used questionable pipe installation practices which resulted in the need for this replacement program. Citing the warranty provided at the time of purchase, the Company filed suit against TEP seeking damages as compensation for its pipe replacement costs. In April 1990, the Company and TEP reached an out-of-court settlement in which the Company agreed to dismiss its lawsuit in exchange for payment from TEP of $25 million, plus $3 million in interest, over a three year period. To reflect the settlement, a $25 million receivable was recorded and gas utility property reduced by

NOTE 17 -- SUBSEQUENT EVENT -- ARIZONA PIPE REPLACEMENT PROGRAM DISALLOWANCES -- (CONTINUED)

$22.6 million. The remaining $2.4 million was used as a recovery of litigation expenses. As of December 31, 1993, all amounts due from TEP were fully collected.

The August 1990 opinion and order stated that all southern Arizona pipe replacement costs, including all related interest costs, property taxes and depreciation expenses, were eliminated from the rate case revenue requirement and deferred for rate consideration to the next general rate application of the Company. In addition, the ACC ordered that all related interest costs, property taxes and depreciation expenses were to be deferred until the allowable portion of the pipe replacement costs was ultimately determined by the ACC and reflected in rates.

In November 1990, the Company filed a new general rate case with the ACC applicable to its southern Arizona rate jurisdiction. The application included a request for full recovery of all capitalized and deferred costs related to the pipe replacement program as ordered by the ACC in the prior general rate case.

In February 1992, the ACC issued its opinion and order on the Company's rate request. Among other things, the opinion and order stated that $1.3 million of the $35 million in capital expenditures incurred as part of the Company's southern Arizona pipe replacement program were disallowed for ratemaking purposes. The Company believes that future disallowances of pipe replacement costs, if any, associated with the southern Arizona pipe replacement program will not materially impact the results of operations.

In April 1992, the Company filed a Notice of Appeal with the Arizona Court of Appeals Division One challenging the lawfulness of the February 1992 decision issued by the ACC. The Company maintains that the Arizona constitution requires the ACC to first establish a rate base by finding the fair value of a utility company's property, and existing case law provides that a utility is entitled to earn a fair and reasonable rate of return on its system that is used and useful in the service of the public. Although this case has not yet been considered by Division One of the Arizona Court of Appeals, the Company considers the issues involved to be controlled by the February 1994 denial of the Petition for Review by the Arizona Supreme Court and the Mandate of Division Two of the Arizona Court of Appeals and, therefore, has written off the applicable pipe replacement costs.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders,
Southwest Gas Corporation:

We have audited the accompanying consolidated statements of financial position of Southwest Gas Corporation (a California corporation, hereinafter referred to as the Company) and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in notes 1, 13 and 14 of the notes to consolidated financial statements, and as required by generally accepted accounting principles, the Company changed its methods of accounting for investments in certain debt and equity securities, postretirement benefits other than pensions and income taxes in 1993.

ARTHUR ANDERSEN & CO.

Las Vegas, Nevada
February 25, 1994

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Identification of Directors. Information with respect to Directors is set forth under the heading "Election of Directors" in the Company's definitive Proxy Statement dated March 31, 1994, which by this reference is incorporated herein.

(b) Identification of Executive Officers. The name, age, position and period during which held for each of the Executive Officers of the Company are as follows:

NAME	AGE	POSITION	PERIOD POSITION HELD
Michael O. Maffie	46	President and Chief Executive Officer	1993-Present
		President and Chief Operating Officer	1989-1993
Dan J. Cheever	38	President and Chief Executive Officer/PriMerit Bank	1992-Present
		President and Chief Operating Officer/PriMerit Bank	1991-1992
George C. Biehl	46	Senior Vice President and Chief Financial Officer	1990-Present
James F. Lowman	47	Senior Vice President/Central Arizona Division	1989-Present
Dudley J. Sondeno	41	Senior Vice President/Staff Operations	1993-Present
		Vice President/Engineering and Operations Support	1989-1993
L. Keith Stewart	53	Senior Vice President/Operations	1993-Present
		Senior Vice President/Southern Arizona Division	1992-1993
		Senior Vice President/Nevada-California Region	1989-1992
Thomas J. Trimble	62	Senior Vice President, General Counsel and Corporate Secretary	1990-Present
		Senior Vice President and General Counsel	1989-1990

(c) Identification of Certain Significant Employees.

None.

(d) Family Relationships. None of the Company's Directors or Executive Officers are related to any other either by blood, marriage or adoption.

(e) Business Experience. Information with respect to Directors is set forth under the heading "Election of Directors" in the Company's definitive Proxy Statement dated March 31, 1994, which by this reference is incorporated herein. All Executive Officers, except George C. Biehl and Dan J. Cheever, have held responsible positions with the Company for at least five years as described in (b) above.

Dan J. Cheever began his employment with the Bank in January 1989. Positions held at the Bank by Cheever from 1989 through 1991 include Senior Vice President and Treasurer, and Executive Vice President and Chief Financial Officer.

George C. Biehl began his employment with the Company in January 1990. Biehl was the Chief Financial Officer of the Bank in 1989.

(f) Involvement in Certain Legal Proceedings.

None.

(g) Item 405 Review. Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the

Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (SEC) and the New York Stock Exchange. Officers, directors and greater than ten-percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on review of the copies of such forms furnished to the Company, or written representations that no Form No. 5's were required, the Company believes that during 1993, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten-percent beneficial owners were complied with.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation is set forth under the heading "Executive Compensation and Benefits" in the Company's definitive Proxy Statement dated March 31, 1994, which by this reference is incorporated herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Not applicable.

(b) Information with respect to security ownership of management is set forth under the heading "Securities Ownership by Nominees and Executive Officers" in the Company's definitive Proxy Statement dated March 31, 1994, which by this reference is incorporated herein.

(c) Not applicable.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to certain relationships and related transactions is set forth under the heading "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement dated March 31, 1994, which by this reference is incorporated herein.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 10-K

(a) The following documents are filed as part of this report on Form 10-K:

(1) The following are included in Part II, Item 8 of this form:

	PAGES
Consolidated statements of financial position	58
Consolidated statements of income	59
Consolidated statements of cash flows	60
Consolidated statements of stockholders' equity	61
Notes to consolidated financial statements	62
Report of independent public accountants	97

	PAGES
(2) Report of independent public accountants on schedules	104
Schedule V -- Property, plant and equipment	105
Schedule VI -- Accumulated depreciation and amortization of property, plant and equipment	106
Schedule VIII -- Valuation and qualifying accounts	107
Schedule IX -- Short-term borrowings	108
Schedule X -- Supplementary income statement information	109

(3) See list of exhibits.

(b) Reports on Form 8-K

The Company filed a Form 8-K, dated February 25, 1994, reporting on the Arizona Court of Appeals Division Two Mandate ordering the write-off of Arizona pipe replacement program costs.

(c) See Exhibits.

(d) See Schedules.

LIST OF EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
2.01	Not applicable.
3.01 (3)	Restated Articles of Incorporation and Bylaws, as amended.
4.01 (1)	Certificate of Determination establishing Cumulative Preferred Stock, 9.5% Dividend Series, effective December 11, 1979.
4.02 (4)	Indenture between the Company and Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated August 1, 1986, with respect to the Company's 9% Series A and Series B and 8 3/4% Series C Debentures.
4.03 (5)	First Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated as of October 1, 1986, supplementing and amending the Indenture dated as of August 1, 1986, with respect to the Company's 9% Debentures, Series A, due 2011.
4.04 (5)	Second Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated as of November 1, 1986, supplementing and amending the Indenture dated as of August 1, 1986, with respect to the Company's 9% Debentures, Series B, due 2011.
4.05 (6)	Third Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated as of December 1, 1986, supplementing and amending the Indenture dated as of August 1, 1986, with respect to the Company's 8 3/4% Debentures, Series C, due 2011.
4.06 (6)	Fourth Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated as of February 1, 1987, supplementing and amending the Indenture dated as of August 1, 1986, with respect to the Company's 10% Debentures, Series D, due 2017.
4.07 (7)	Fifth Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated as of August 1, 1988, supplementing and amending the Indenture dated as of August 1, 1986, with respect to the Company's 9 3/8% Debentures, Series E, due 2013.
4.08 (9)	Sixth Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank as Trustee, dated as of June 16, 1992, supplementing and amending the Indenture dated as of August 1, 1986, with respect to the Company's 9 3/4% Debentures, Series F, due 2002.
4.09 (10)	Indenture between Clark County, Nevada, and Bank of America Nevada as Trustee, dated September 1, 1992, with respect to the issuance of $130,000,000 Industrial Development Revenue Bonds (Southwest Gas Corporation), $30,000,000 1992 Series A and $100,000,000 1992 Series B.
4.10	Indenture between Clark County, Nevada, and Harris Trust and Savings Bank as Trustee, dated December 1, 1993, with respect to the issuance of $75,000,000 Industrial Development Revenue Bonds (Southwest Gas Corporation), 1993 Series A, due 2033.
4.11	Indenture between City of Big Bear Lake, California, and Harris Trust and Savings Bank as Trustee, dated December 1, 1993, with respect to the issuance of $50,000,000 Industrial Development Revenue Bonds (Southwest Gas Corporation Project), 1993 Series A, due 2028.
9.01	Not applicable.

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
10.01 (2)	Participation Agreement among the Company and General Electric Credit Corporation, Prudential Insurance Company of America, Aetna Life Insurance Company, Merrill Lynch Interfunding, Bank of America through purchase of Valley Bank of Nevada, Bankers Trust Company and First Interstate Bank of Nevada, dated as of July 1, 1982.
10.02 (2)	Lease and Agreement between the Company and Spring Mountain Road Associates, dated as of June 15, 1982 and amended as of July 1, 1982.
10.03	Financing Agreement between the Company and Clark County, Nevada, dated September 1, 1992.
10.04	Financing Agreement between the Company and Clark County, Nevada, dated as of December 1, 1993.
10.05	Project Agreement between the Company and City of Big Bear Lake, California, dated as of December 1, 1993.
10.06 (11)	Southwest Gas Corporation Executive Deferral Plan as amended October 29, 1992.
10.07 (11)	Southwest Gas Corporation Directors Deferral Plan as amended October 29, 1992.
10.08	Directors Retirement Plan amended and restated effective October 1, 1993.
10.09 (12)	Management Incentive Plan adopted as of May 12, 1993, replacing Management Incentive Plan adopted as of December 1, 1986, as amended May 12, 1988.
10.10 (13)	Supplemental Retirement Plan, amended and restated as of March 2, 1993.
10.11 (8)	$80 million Credit Agreement between the Company, Bankers Trust Company, et al., dated as of July 23, 1984, and amended as of December 1, 1989.
10.12 (8)	$125 million Commercial Paper Restated and Amended Credit Agreement between the Company, Union Bank of Switzerland, et al., dated as of April 11, 1990.
10.13	Agreements between PriMerit Bank and World Savings and Loan Association regarding sale of Arizona assets and assumption of related liabilities.
11.01	Not applicable.
12.01	Not applicable.
13.01	Not applicable.
16.01	Not applicable.
18.01	Not applicable.
21.01	List of subsidiaries of Southwest Gas Corporation.
22.01	Not applicable.
23.01	Consent of Arthur Andersen & Co., Independent Public Accountants.
24.01	Not applicable.
27.01	Not applicable.
28.01	Not applicable.

----

(1) Incorporated herein by reference to the Company's Registration Statement on Form S-16, No. 2-68833.

(2) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1982.

(3) Incorporated herein by reference to Exhibit 4.01 to the Company's Registration Statement on Form S-2, No. 2-92938.

(4) Incorporated herein by reference to Exhibit 4.02 to the Company's Registration Statement on Form S-3, No. 33-7931.

(5) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1986.

(6) Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended March 31, 1987.

(7) Incorporated herein by reference to the Company's report on Form 8-K dated August 23, 1988.

(8) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1991.

(9) Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended June 30, 1992.

(10) Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended September 30, 1992.

(11) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1992.

(12) Incorporated herein by reference to the Company's report on Form 10-Q for the quarter ended June 30, 1993.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULES

To the Shareholders,
Southwest Gas Corporation:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements of Southwest Gas Corporation and subsidiaries included elsewhere in this annual report and have issued our report thereon dated February 25, 1994. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in Item 14 are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

Las Vegas, Nevada
February 25, 1994

SCHEDULE V

SOUTHWEST GAS CORPORATION

SCHEDULE V -- PROPERTY, PLANT AND EQUIPMENT

FOR THE THREE YEARS ENDED DECEMBER 31, 1993
(THOUSANDS OF DOLLARS)

	BALANCE AT BEGINNING OF YEAR	ADDITIONS AT COST	RETIREMENTS OR SALES	TRANSFERS AND ADJUSTMENTS	CONTRIBUTIONS IN AID OF CONSTRUCTION	BALANCE AT END OF YEAR
Year ended December 31, 1991:						
Plant in service:						
Production, gathering and storage..........	$ 13,570	$ 398	$ 19	$ 24	$ --	$ 13,973
Transmission...........	81,496	12,460	184	(67)	17	93,688
Distribution...........	807,713	62,437	4,682	13,261	5,683	873,046
General................	137,547	12,000	4,713	922	(3)	145,759
Other..................	28,339	4,108	284	--	--	32,163
	1,068,665..	91,403	9,882	14,140	5,697	1,158,629
Construction work in progress..................	26,507	(9,982)	--	--	--	16,525
Acquisition adjustment, net.......................	2,031	6,251	--	(256)	--	8,026
Other property.............	82,544....	4,247	8,072	781	--	79,500
	$1,179,747	$ 91,919	$17,954	$ 14,665	$ 5,697	$1,262,680
Year ended December 31, 1992:						
Plant in service:						
Production, gathering and storage..........	$ 13,973	$ 174	$ 1	$ --	$ 318	$ 13,828
Transmission...........	93,688	16,531	356	--	6	109,857
Distribution...........	873,046	69,027	4,926	--	4,608	932,539
General................	145,759	5,256	2,370	5	--	148,650
Other..................	32,163	357	--	(52)	--	32,468
	1,158,629..	91,345	7,653	(47)	4,932	1,237,342
Construction work in progress..................	16,525	14,796	--	--	--	31,321
Acquisition adjustment, net.......................	8,026	--	--	(462)	--	7,564
Other property.............	79,500	3,651	781	(13,008)	--	69,362
	$1,262,680	$ 109,792	$ 8,434	$ (13,517)	$ 4,932	$1,345,589
Year ended December 31, 1993:						
Plant in service:						
Production, gathering and storage..........	$ 13,828	$ 143	$ 11	$ --	$ --	$ 13,960
Transmission...........	109,857	29,778	428	56	1	139,262
Distribution...........	932,539	85,376	8,578	(15,886)	4,430	989,021
General................	148,650	11,717	9,980	95	--	150,482
Other..................	32,468	698	166	--	--	33,000
	1,237,342	127,712	19,163	(15,735)	4,431	1,325,725
Construction work in progress..................	31,321	(10,563)	--	--	--	20,758
Acquisition adjustment, net.......................	7,564	--	--	(404)	--	7,160
Other property.............	69,362	2,606	7,442	(2,802)	--	61,724
	$1,345,589	$ 119,755	$26,605	$ (18,941)	$ 4,431	$1,415,367

SCHEDULE VI

SOUTHWEST GAS CORPORATION

SCHEDULE VI--ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

FOR THE THREE YEARS ENDED DECEMBER 31, 1993
(THOUSANDS OF DOLLARS)

	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO DEPRECIATION EXPENSE	DEDUCTIONS		TRANSFERS AND ADJUSTMENTS	BALANCE AT END OF YEAR
			RETIREMENTS	NET SALVAGE		
Year ended December 31, 1991:						
Production, gathering and storage	$ 4,434	$ 968	$ 19	$ --	$ 27	$ 5,410
Transmission	33,195	1,583	184	115	(52)	34,427
Distribution	211,973	33,598	4,681	2,294	3,237	241,833
General	31,215	7,164	4,591	(278)	206	34,272
Other	9,649	3,691	122	--	(237)	12,981
Retirement work in progress	(223)	--	--	(226)	--	3
	290,243	47,004	9,597	1,905	3,181	328,926
Other property	25,244	4,164	2,100	--	85	27,393
	$ 315,487	$51,168	$11,697	$1,905	$ 3,266	$356,319
Year ended December 31, 1992:						
Production, gathering and storage	$ 5,410	$ 1,377	$ 1	$ --	$ --	$ 6,786
Transmission	34,427	2,241	357	19	--	36,292
Distribution	241,833	36,500	4,925	2,557	(23)	270,828
General	34,272	7,551	2,363	(348)	10	39,818
Other	12,981	3,625	8	--	(406)	16,192
Retirement work in progress	3	--	--	113	--	(110)
	328,926	51,294	7,654	2,341	(419)	369,806
Other property	27,393	4,380	154	0	(9,056)	22,563
	$ 356,319	$55,674	$ 7,808	$2,341	$ (9,475)	$392,369
Year ended December 31, 1993:						
Production, gathering and storage	$ 6,786	$ 1,390	$ 11	$ --	$ --	$ 8,165
Transmission	36,292	3,090	428	13	55	38,996
Distribution	270,828	38,474	8,577	2,662	(3,868)	294,195
General	39,818	7,687	9,978	(1,588)	(149)	38,966
Other	16,192	3,362	168	--	(252)	19,134
Retirement work in progress	(110)	--	--	191	--	(301)
	369,806	54,003	19,162	1,278	(4,214)	399,155
Other property	22,563	4,506	1,226	--	(614)	25,229
	$ 392,369	$58,509	$20,388	$1,278	$ (4,828)	$424,384

SCHEDULE VIII

SOUTHWEST GAS CORPORATION

SCHEDULE VIII -- VALUATION AND QUALIFYING ACCOUNTS

FOR THE THREE YEARS ENDED DECEMBER 31, 1993
(THOUSANDS OF DOLLARS)

	RESERVE FOR UNCOLLECTIBLES
Balance, December 31, 1990	$ 1,612
Additions charged to income	1,536
Accounts written off, less recoveries	(1,775)
Balance, December 31, 1991	1,373
Additions charged to income	1,667
Accounts written off, less recoveries	(1,533)
Balance, December 31, 1992	1,507
Additions charged to income	1,460
Accounts written off, less recoveries	(1,284)
Balance, December 31, 1993	$ 1,683

SCHEDULE IX

SOUTHWEST GAS CORPORATION

SCHEDULE IX -- SHORT-TERM BORROWINGS

FOR THE THREE YEARS ENDED DECEMBER 31, 1993
(THOUSANDS OF DOLLARS)

	BALANCE AT YEAR END	WEIGHTED AVERAGE INTEREST RATE AT YEAR END	MAXIMUM AMOUNT OUTSTANDING DURING THE YEAR	AVERAGE AMOUNT OUTSTANDING DURING THE YEAR(A)	WEIGHTED AVERAGE INTEREST RATE DURING THE YEAR(B)
Year ended December 31, 1991 --					
Notes payable to banks............	$ 80,000	6.0%	$80,000	$25,012	6.2%
Year ended December 31, 1992 --					
Notes payable to banks............	$ 20,000	4.6%	$80,000	$32,289	5.3%
Year ended December 31, 1993 --					
Notes payable to banks............	$ 86,000	3.8%	$86,000	$28,904	3.9%

- ---------------

(a) Computed by totaling daily outstanding borrowings during each year and dividing the resultant total by 365 days.

(b) Computed by dividing total interest expense related to short-term borrowings during each year by the average amount of such borrowings outstanding.

SCHEDULE X

SOUTHWEST GAS CORPORATION

SCHEDULE X -- SUPPLEMENTARY INCOME STATEMENT INFORMATION

FOR THE THREE YEARS ENDED DECEMBER 31, 1993
(THOUSANDS OF DOLLARS)

During the years presented, no royalties were paid and advertising costs incurred were not significant. Amounts charged to income with respect to amortization of intangible assets, and taxes, other than payroll and income taxes, during the three years ended December 31, 1993, are as follows:

	1993	1992	1991
Maintenance expense	*	*	*
Amortization of intangible assets	$ 5,074	$ 4,994	$ 4,181
Real estate and personal property taxes	$23,311	$21,365	$19,936
Taxes, other than payroll and income taxes	1,449	1,575	1,098
	$24,760	$22,940	$21,034
Advertising costs	**	**	**

- ---------------

* Separately disclosed on the Consolidated Statements of Income.

** Less than one percent of operating revenues.

SIGNATURES

Pursuant to the requirements of Section 15(d) 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

By MICHAEL O. MAFFIE

Michael O. Maffie, President
(Chief Executive Officer)

Date: March 28, 1994

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
GEORGE C. BIEHL -------------------------------- (George C. Biehl)	Senior Vice President (Chief Financial Officer)	March 28, 1994
JEFFREY W. SHAW -------------------------------- (Jeffrey W. Shaw)	Vice President/Controller (Chief Accounting Officer)	March 28, 1994

SIGNATURES

Pursuant to the requirements of Section 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
RALPH C. BATASTINI (Ralph C. Batastini)	Director	March 28, 1994
MANUEL J. CORTEZ (Manuel J. Cortez)	Director	March 28, 1994
LLOYD T. DYER (Lloyd T. Dyer)	Director	March 28, 1994
CLARK J. GUILD, JR. (Clark J. Guild, Jr.)	Director	March 28, 1994
KENNY C. GUINN (Kenny C. Guinn)	Chairman of the Board of Directors	March 28, 1994
THOMAS Y. HARTLEY (Thomas Y. Hartley)	Director	March 28, 1994
MICHAEL B. JAGER (Michael B. Jager)	Director	March 28, 1994
LEONARD R. JUDD (Leonard R. Judd)	Director	March 28, 1994
JAMES R. LINCICOME (James R. Lincicome)	Director	March 28, 1994
MICHAEL O. MAFFIE (Michael O. Maffie)	President and Director (Chief Executive Officer)	March 28, 1994
CAROLYN M. SPARKS (Carolyn M. Sparks)	Director	March 28, 1994
ROBERT S. SUNDT (Robert S. Sundt)	Director	March 28, 1994

GLOSSARY OF TERMS

401k	-- The Employees' Investment Plan
ACC	-- Arizona Corporation Commission
AICPA	-- American Institute of Certified Public Accountants
ALCO	-- Asset/Liability Management Committee
APB	-- Accounting Principles Board
APS	-- Arizona Public Service Company
the Bank	-- PriMerit Bank
the Board	-- Southwest Gas Corporation Board of Directors
BOD	-- The Bank's Board of Directors
CMO	-- Collateralized Mortgage Obligations
the Company	-- Southwest Gas Corporation
CPN	-- CP National Corporation
CPUC	-- California Public Utilities Commission
CRA	-- Community Reinvestment Act of 1977
El Paso	-- El Paso Natural Gas Company
FASB	-- Financial Accounting Standards Board
FDIC	-- Federal Deposit Insurance Corporation
FDICIA	-- Federal Deposit Insurance Corporation Improvement Act of 1991
FERC	-- Federal Energy Regulatory Commission
FFIEC	-- Federal Financial Institutions Examinations Council
FHA	-- Federal Housing Authority
FHFB	-- Federal Housing Finance Board
FHLB	-- Federal Home Loan Bank
FHLBB	-- Federal Home Loan Bank Board
FHLMC	-- Federal Home Loan Mortgage Corporation
FIRREA	-- Financial Institutions Reform, Recovery and Enforcement Act
flex repos	-- Flexible Reverse Repurchase Agreements
FNMA	-- Federal National Mortgage Association
FSLIC	-- Federal Savings and Loan Insurance Corporation
GAAP	-- Generally Accepted Accounting Principles
gas segment	-- Natural Gas Operations Segment
GNMA	-- Government National Mortgage Association
IDRB	-- Industrial Development Revenue Bonds
IRR	-- Interest Rate Risk
ITC	-- Investment Tax Credit
Kern River	-- Kern River Gas Transmission Company
LDC	-- Local Distribution Company
LIBOR	-- London Interbank Offering Rate
LNG	-- Liquefied Natural Gas
LPG	-- Liquefied Petroleum Gas
MACRO	-- Management, Asset quality, Capital adequacy, Risk management and Operating results
MBS	-- Mortgage-backed Securities
MD&A	-- Management's Discussion and Analysis
MVDC	-- Margarita Village Development Company
MVPE	-- Market Value of Portfolio Equity
Northwest	-- Northwest Pipeline Corporation
NOW	-- Negotiable Order of Withdrawal

NPV	-- Net Portfolio Value
Order No. 636	-- Federal Energy Regulatory Commission Order No. 636 and amendments thereto
OTS	-- Office of Thrift Supervision
Paiute	-- Paiute Pipeline Company
Pataya	-- Pataya Gas Storage Project
PBOP	-- Postretirement Benefits Other Than Pensions
PEPCON	-- Pacific Engineering & Production Company of Nevada
PGA	-- Purchased Gas Adjustment
PG&E	-- Pacific Gas and Electric Company
PSCN	-- Public Service Commission of Nevada
QTL	-- Qualified Thrift Lender
REMIC	-- Real Estate Mortgage Investment Conduits
REOF	-- Real Estate Acquired Through Foreclosure
SAIF	-- Savings Association Insurance Fund
SEC	-- Securities and Exchange Commission
SFAS	-- Statement of Financial Accounting Standards
Sierra	-- Sierra Pacific Power Company
SoCal	-- Southern California Gas Company
SOP	-- Statement of Position issued by AICPA
TEP	-- Tucson Electric Power Company
TOP	-- Take-or-Pay
Tuscarora	-- Tuscarora Gas Transmission Company
VA	-- Veterans Administration

EXHIBIT 4.10

INDENTURE OF TRUST

Between

CLARK COUNTY, NEVADA

and

HARRIS TRUST AND SAVINGS BANK,
as Trustee

____

Dated as of December 1, 1993

____

Authorizing

$75,000,000

Clark County, Nevada
Industrial Development Revenue Bonds
(Southwest Gas Corporation)
1993 Series A

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Exhibit A Form of Bond

THIS INDENTURE OF TRUST, made and entered into as of December 1, 1993, by and between CLARK COUNTY, NEVADA, a political subdivision of the State of Nevada (herein called the "Issuer"), and HARRIS TRUST AND SAVINGS BANK, a banking corporation organized and existing under the laws of the State of Illinois with corporate trust offices in Chicago, Illinois, and being qualified to accept and administer the trusts hereby created (herein called the "Trustee"),

W I T N E S S E T H:

WHEREAS, the Issuer is authorized and empowered under the County Economic Development Revenue Bond Law, Sections 244A.669 to 244A.763, inclusive, of the Nevada Revised Statutes, as amended (the "Act"), to issue bonds in accordance with the Act and to use the proceeds thereof for financing all or part of the cost of acquiring, constructing, improving or equipping any project, consisting of any land, building, structure, facility, system, fixture, improvement, appurtenance, machinery, equipment or any combination thereof or interest therein used by any natural person, partnership, firm, company, corporation, association, trust, estate, political subdivision, state agency or any other legal entity, or its legal representative, agent or assigns in connection with the furnishing of energy including gas;

WHEREAS, the Issuer proposes to issue and sell $75,000,000 aggregate principal amount of Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation) 1993 Series A (the "Bonds") upon the terms and conditions set forth herein, for the purpose of financing the costs of the acquisition, construction, improvement and equipping of certain additional real and personal properties, facilities, machinery and equipment (the "Project") described in Exhibit A to the Financing Agreement, of even date herewith (the "Financing Agreement"), between the Issuer and Southwest Gas Corporation, a California corporation qualified to do business in the State of Nevada (the "Company");

WHEREAS, the Issuer, after due investigation and deliberation, has adopted a resolution approving the issuance of the Bonds to finance the acquisition and construction of the Project, which Project constitutes a "project" as defined in the Act;

WHEREAS, the Issuer has duly entered into the Financing Agreement with the Company specifying the terms and conditions of the financing of the Project by the Company, the lending of the proceeds of the Bonds to the Company for such purposes and the repayment by the Company of such loan;

WHEREAS, in order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof and of the

interest and premium, if any, thereon, the Issuer has authorized the execution and delivery of this Indenture;

WHEREAS, the Bonds issued under this Indenture will be secured by a pledge and assignment to the Trustee of the Financing Agreement and by certain other security in accordance with the terms of this Indenture; and

WHEREAS, all acts and proceedings required by law necessary to make the Bonds when executed by the Issuer, authenticated and delivered by the Trustee and duly issued, the legal, valid and binding special, limited obligations of the Issuer, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth, in accordance with its terms, have been done and taken; and the execution and delivery of this Indenture have been in all respects duly authorized;

NOW, THEREFORE, for and in consideration of these premises and the mutual covenants herein contained, of the acceptance by the Trustee of the trusts hereby created, of the purchase and acceptance of the Bonds by the holders (as hereinafter defined) thereof and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, in order to secure the payment of the principal of and premium, if any, and interest on the Bonds at any time Outstanding (as hereinafter defined) under this Indenture according to their tenor and effect, and the performance and observance by the Issuer of all the covenants and conditions expressed or implied herein and contained in the Bonds, the Issuer does hereby grant, bargain, sell, convey, mortgage, pledge, assign, create and grant a security interest in and confirm unto the Trustee, its successors in trust and their assigns forever, the Trust Estate (as hereinafter defined);

TO HAVE AND TO HOLD all the same with all privileges and appurtenances hereby conveyed and assigned or agreed or intended so to be, to the Trustee, its successors in trust and their assigns forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit and security of all holders of the Bonds issued under and secured by this Indenture without preference, priority or distinction as to lien of any Bonds over any other Bonds;

PROVIDED, HOWEVER, that if, after the right, title and interest of the Trustee in and to the Trust Estate shall have ceased, terminated and become void in accordance with Article X hereof, and the principal of and premium, if any, and interest on the Bonds shall have been paid to the holders thereof, or funds sufficient for such payment shall have been provided in accordance with Article X hereof, then and in that case these presents and the estate and rights hereby granted shall cease, terminate and be void, and thereupon the Trustee shall cancel and

discharge this Indenture and execute and deliver to the Issuer and the Company such instruments in writing as shall be requisite to evidence the discharge hereof; otherwise this Indenture to be and remain in full force and effect.

THIS INDENTURE OF TRUST FURTHER WITNESSETH, and it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated and delivered, and the Trust Estate and the other estate and rights hereby granted are to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the Issuer has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the respective holders, from time to time, of the Bonds, as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 shall, for all purposes of this Indenture, any Supplemental Indenture and any certificate, opinion or other writing executed or delivered pursuant hereto or thereto, have the meanings herein specified, as follows:

"Act" shall mean the County Economic Development Revenue Bond Law, Sections 244A.669 to 244A.763, inclusive, of the Nevada Revised Statutes, as amended.

"Act of Bankruptcy" of the Company shall mean any of the following: (a) the commencement by the Company of a voluntary case under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws, or (b) the filing of a petition with a court having jurisdiction over the Company to commence an involuntary case against the Company under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws which has not been discharged after a period of sixty (60) days, or (c) the Company shall admit in writing its inability to pay its debts generally as they become due, or (d) a receiver, trustee or liquidator of the Company shall be appointed in any proceeding brought against the Company, or (e) assignment by the Company for the benefit of its creditors, or (f) the entry by the Company into an agreement of composition with its creditors.

"Agreement" or "Financing Agreement" shall mean the Financing Agreement, of even date herewith, between the Issuer and the Company, as originally executed or as it may from time to time be supplemented or amended.

"Authorized Company Representative" shall mean any person who at the time and from time to time may be designated, by written certificate furnished by the Company to the Issuer and the Trustee, as the person authorized to act on behalf of the Company. Such certificate shall contain the specimen signature of such person, shall be signed on behalf of the Company by any one of its President and Chief Executive Officer, Senior Vice President and Chief Financial Officer or Treasurer and shall designate an alternate or alternates.

"Authorized Denomination" shall mean $5,000 or any integral multiple thereof.

"Big Bear Lake Project" shall mean the facilities financed with proceeds of the City of Big Bear Lake Industrial Development Revenue Bonds (Southwest Gas Corporation Project) 1993 Series A, issued by the City of Big Bear Lake, California for the benefit of the Company.

"Bond Counsel" shall mean any attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States, but shall not include counsel for the Company.

"Bond Fund" shall mean the fund established pursuant to Section 5.03 hereof.

"Bondholder" or "holder" shall mean the registered owner of any Bond.

"Bond Purchase Agreement" shall mean the Bond Purchase Agreement, dated December 1, 1993, by and among the Issuer, the Company and Smith Barney Shearson Inc., Lehman Brothers Inc. and Grigsby Brandford & Co., Inc.

"Bonds" shall mean the Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation) 1993 Series A authorized and issued under this Indenture in an aggregate principal amount of $75,000,000, the proceeds of which shall be used by the Issuer to make the loan under the Agreement.

"Business Day" shall mean a day on which banks located in the city in which the Principal Office of the Trustee is located are not required or authorized to remain closed and on which The New York Stock Exchange is not closed, and, in the case of any action to be taken by the Company, which is not a legal holiday in Las Vegas, Nevada.

"Certificate of the Issuer" shall mean a certificate signed by the Chairman of the Board of County Commissioners of the Issuer or by an officer of the Issuer designated by a certificate signed by said Chairman. If and to the extent required by the provisions of Section 1.04, each Certificate of

the Issuer shall include the statements provided for in Section 1.04.

"Certified Resolution" shall mean a copy of a resolution of the Issuer certified by the County Clerk of the Issuer to have been duly adopted by the Issuer and to be in full force and effect on the date of such certification.

"Code" shall mean the Internal Revenue Code of 1986.

"Company" shall mean (i) Southwest Gas Corporation, a corporation organized under the laws of the State of California, and its successors and assigns, and (ii) any surviving, resulting or transferee corporation as provided in Section 5.2 of the Agreement.

"Completion Date" shall mean the date of completion of the Project as that date shall be certified as provided in Section 3.4 of the Agreement.

"Construction Fund" shall mean the fund established pursuant to Section 3.03 hereof.

"Construction Period" shall mean the period during which interest for any portion of the Project may be capitalized for federal income tax purposes.

"Costs of Issuance" shall mean the initial or acceptance fee of the Trustee; the fees of the Trustee as such Trustee and as registrar and paying agent, incurred during the Construction Period, including, without limitation, the reasonable fees and expenses of its counsel; the Issuer's issuance fees; legal, underwriting, financial consulting, engineering consulting, accounting and rating agency fees and expenses and printing and engraving costs incurred in connection with the authorization, sale and issuance of the Bonds, the execution of this Indenture and the preparation of all other documents in connection therewith; all fees, costs and expenses incurred with respect to the preparation of this Indenture, the Financing Agreement, the Bonds, and all other documents in connection therewith, and all other expenses which are "costs of issuance" within the meaning of Section 147(g) of the Code.

"Costs of Issuance Fund" shall mean the fund established pursuant to Section 3.04 hereof.

"Cost of the Project" shall mean all costs related to the acquisition, construction, reconstruction, repair, alteration, improvement, equipment and extension of the Project for which disbursement may be made from the Construction Fund pursuant to Section 3.3 of the Financing Agreement.

"Determination of Taxability" shall mean (i) a determination that the interest payable on any Bond is not Tax-exempt to the owner thereof (other than an owner of any Bond

who is a "substantial user" of the Project or the Big Bear Lake Project or a "related person" within the meaning of Section 147(a) of the Code) by a final administrative determination of the Internal Revenue Service or judicial decision of a court of competent jurisdiction in a proceeding of which the Company received notice and was afforded an opportunity to participate to the full extent permitted by law or (ii) a letter from Bond Counsel delivered to the Company to the effect that, as a result of an event occurring or to occur or action taken or to be taken by the Issuer after the Issue Date, such counsel would be unable to opine that interest on the Bonds would be excluded from gross income for federal income tax purposes if the Bonds remained Outstanding following the occurrence of such event or the taking of such action; provided, however, that a Determination of Taxability shall not result from any change after the Issue Date in any applicable law governing the treatment of interest on the Bonds for determination of federal income tax liabilities. The Determination of Taxability shall be deemed to occur as of the date specified in the foregoing determination, decision or letter. A determination or decision under clause (i) above will not be considered final for purposes of the preceding sentence unless (A) the holder or holders of the Bonds involved in the proceeding in which the issue is raised (I) shall have given the Company and the Trustee prompt notice of the commencement thereof and (II) shall have offered the Company the opportunity to control the proceeding, to the extent that the Company is permitted by law to do so; provided the Company agrees to pay all expenses in connection therewith and to indemnify such holder or holders against all liability for such expenses (except that any such holder may engage separate counsel, and the Company shall not be liable for the fees or expenses of such counsel); and (B) such proceeding shall not be subject to a further right of appeal or shall not have been timely appealed.

"Event of Default" as used herein shall have the meaning specified in Section 7.01 hereof, and as used in the Agreement shall have the meaning specified in Section 6.1 thereof.

"Indenture" shall mean this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions hereof.

"Information Services" shall mean Financial Information, Inc.'s "Daily Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenney Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; Municipal Securities Rulemaking Board, CDI Pilot, 1640 King Street, Suite 300, Alexandria, Virginia 22314; and Standard and Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then current guidelines of the Securities and

Exchange Commission, to such other addresses and/or such other services providing information with respect to called bonds, or no such services, as the Issuer may designate in a Certificate of the Issuer delivered to the Trustee.

"Interest Payment Date" shall mean June 1 and December 1 of each year, commencing June 1, 1994, until and including the date of maturity of the Bonds.

"Investment Securities" shall mean any of the following: (1) Permitted Investments; (2) obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Federal Home Loan Bank Board, Federal Farm Credit Bank, Government National Mortgage Association, Farmer's Home Administration, or Federal Home Loan Mortgage Corporation; (3) obligations of any state or local government the interest on which is exempt from federal income taxation for which a nationally recognized rating service is maintaining a rating within the top two ratings of such rating service; (4) repurchase agreements with reputable financial institutions fully secured by collateral security actually delivered to the Trustee described in clauses (1) or (2) of this definition continuously having a market value at least equal to 102% of the amount so invested; (5) bankers' acceptances issued by a bank (including the Trustee and its affiliates) rated Aa or better by Moody's or rated AA or better by S&P and eligible for purchase by the Federal Reserve Bank; (6) interest-bearing demand or time deposits (including certificates of deposit) in banks (including the Trustee and its affiliates) and savings and loan associations, provided such deposits are (a) secured at all times, in the manner and to the extent provided by law, by collateral security (described in clauses (1) or (2) of this definition) having a market value of no less than 102% of the amount of moneys so invested or (b) fully insured by Federal deposit insurance; (7) investment in or shares of any "regulated investment company" within the meaning of Section 851(a) of the Code, the assets of which are securities or investments described in clauses (1) through (6) above; and (8) commercial paper (including both non-interest-bearing discount obligations and interest-bearing obligations payable on demand or on a specified date not more than one year after the date of issuance thereof) which have been assigned the rating of at least A-1 by S&P and at least P-1 by Moody's at the time of such investment; or other obligations of corporations which have been assigned the rating of at least AA by S&P and at least Aa by Moody's at the time of such investment.

"Issue Date" means December 15, 1993.

"Issuer" shall mean Clark County, Nevada, the issuer of the Bonds hereunder.

"Moody's" shall mean Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such

corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, at the written direction of the Company.

"Notice by Mail" or "notice" of any action or condition "by Mail" shall mean a written notice meeting the requirements of this Indenture mailed by first-class mail to the holders of specified registered Bonds, at the addresses shown on the registration books maintained pursuant to Section 2.04 hereof as of a date not more than five (5) Business Days before such notice is given, or to such other persons as may be specified hereunder; provided, however, that if, because of the temporary or permanent suspension of delivery of first-class mail or for any other reason, it is impossible or impracticable to give such notice by first-class mail, the Notice by Mail shall mean such giving of notice in lieu thereof, which may be made by publication, as shall be made with the approval of the Trustee (or if there be no trustee hereunder, the Issuer).

"Opinion of Counsel" shall mean a written opinion of counsel (who may not be counsel for the Company) acceptable to the Issuer, the Trustee and the Company. If and to the extent required by the provisions of Section 1.04, each Opinion of Counsel shall include the statements provided for in Section 1.04.

"Outstanding," when used as of any particular time with reference to Bonds, shall, subject to the provisions of Section 11.08(d), mean all Bonds theretofore authenticated and delivered by the Trustee under this Indenture except:

(a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the terms of Section 2.06; and

(c) Bonds with respect to which the liability of the Issuer and the Company have been discharged to the extent provided in, and pursuant to the requirements of, Section 10.02.

"Permitted Investments" shall mean (i) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America); (ii) obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America; (iii) money market funds registered under the Investment Company Act of 1940, as amended, whose shares are registered under the Securities Act of 1933, as amended, which invest only in securities of the type described in clause (i) or (ii) of this

definition and having a rating by S&P of AAAm-G, AAAm, or AAm and by Moody's of Aaa or P-1; or (iv) certificates or receipts representing direct ownership interests in future interest or principal payments on obligations described in clause (i) or (ii) of this definition which are held by a custodian in safekeeping on behalf of the holders of such certificates or receipts.

"Person" shall mean an individual, a corporation, a partnership, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

"Principal Office" of the Trustee shall mean the principal corporate trust office of the Trustee initially located at the address set forth in Section 11.07 hereof, or at such other address as may be designated pursuant to said Section.

"Project" shall mean those facilities, including real property, structures, buildings, fixtures or equipment, described in Exhibit A to the Agreement, which facilities are to be financed, in whole or in part, from the proceeds of the sale of the Bonds, and any real property, structures, buildings, fixtures or equipment acquired in substitution for, as a renewal or replacement of, or a modification or improvement to, all or any part of the facilities described in said Exhibit A.

"Qualified Newspaper" shall include The Wall Street Journal and The Bond Buyer and any other newspaper or journal containing financial news, printed in the English language and customarily published on each business day, of general circulation in New York, New York, and selected by the Trustee, whose decision shall be final and conclusive.

"Rebate Amount" shall mean the amount directed by the Company to be remitted to the United States Government from time to time pursuant to the Tax Certificate.

"Rebate Fund" shall mean the fund established pursuant to Section 5.08 hereof.

"Record Date" shall mean the close of business at the Principal Office of the Trustee on the fifteenth day of the calendar month preceding an Interest Payment Date.

"Repayment Installment" shall mean any amount that the Company is required to pay directly to the Trustee pursuant to Section 4.2(a) of the Agreement as a repayment of the loan made by the Issuer under the Agreement, which amount is determined in accordance with Section 4.2(a) thereof.

"Responsible Officer" of the Trustee shall mean and include the Chairman of the Board of Directors, the President, every Vice President and every Assistant Vice President.

"Revenues" shall mean all income derived by the Issuer or the Trustee with respect to the Bonds under the Agreement, and

any income or revenue derived from the investment of any money in any fund or account established pursuant to this Indenture, including all Repayment Installments and any other payments made by the Company with respect to the Bonds pursuant to the Agreement; but such term shall not include payments to the Issuer or the Trustee pursuant to Sections 4.2(b), 4.2(c), 6.3, 8.2 and 8.3 of the Agreement and amounts on deposit in the Rebate Fund or payments made to the Trustee for deposit in the Rebate Fund.

"S&P" shall mean Standard & Poor's Corporation, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, at the written direction of the Company.

"Securities Depositories" shall mean: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax-(215) 496-5058; or, in accordance with then-current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other securities depositories, or no such depositories, as the Issuer may designate in a certificate of the Issuer delivered to the Trustee.

"Supplemental Indenture" or "indenture supplemental hereto" shall mean any indenture hereafter duly authorized and entered into between the Issuer and the Trustee in accordance with the provisions of this Indenture.

"Tax Certificate" shall mean the Tax Certificate and Agreement, dated the Issue Date, between the Issuer and the Company.

"Tax-exempt" shall mean, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

"Trust Estate" shall mean (i) the proceeds of the Bonds; (ii) all Revenues; (iii) all amounts (including money and securities) held in any funds or accounts hereunder, except the Rebate Fund; (iv) the Financing Agreement and the rights and privileges of the Issuer thereunder which are assigned to the

Trustee pursuant to Section 5.06 hereof; and (v) any other property rights, money, securities or other assets pledged or assigned by the Issuer to the Trustee pursuant hereto.

"Trustee" shall mean Harris Trust and Savings Bank, a banking corporation organized and existing under the laws of the State of Illinois, together with any successor trustee appointed as Trustee pursuant to Section 8.08.

"Written Consent of the Issuer," "Written Order of the Issuer," "Written Request of the Issuer" and "Written Requisition of the Issuer" shall mean, respectively, a written consent, order, request or requisition signed by or on behalf of the Issuer by the Chairman of the Board of County Commissioners of the Issuer or by an officer of the Issuer designated by a certificate signed by said Chairman.

Section 1.02. Number and Gender. The singular form of any word used herein, including the terms defined in Section 1.01, shall include the plural, and vice versa. The use herein of a word of any gender shall include all genders.

Section 1.03. Articles, Sections, Etc. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture as originally executed; and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Indenture.

Section 1.04. Content of Certificates and Opinions. Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture or the Agreement shall include (a) a statement that the person or persons making or giving such certificate or opinion have read such covenant or condition and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate or opinion made or given by an officer of the Issuer may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows that the certificate or opinion or representations with respect to the

matters upon which his certificate or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should have known that the same were erroneous. Any such certificate or opinion made or given by counsel may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Issuer), upon the certificate or opinion of or representations by an officer of the Issuer, unless such counsel knows that the certificate or opinion or representations with respect to the matters upon which his opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should have known that the same were erroneous.

ARTICLE II

THE BONDS

Section 2.01. Authorization of Bonds; Terms of Bonds. The Bonds to be issued under this Indenture are hereby authorized and such Bonds are designated as the "Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation) 1993 Series A", limited in aggregate principal amount to Seventy-Five Million Dollars ($75,000,000) exclusive of Bonds executed and authenticated as provided in Section 2.06. The Bonds shall be issued as fully registered Bonds, without coupons, in Authorized Denominations. The Bonds and the certificate of authentication to be endorsed thereon shall be in substantially the respective forms set forth in Exhibit A hereto with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

Pursuant to recommendations promulgated by the Committee on Uniform Security Identification Procedures, "CUSIP" numbers may be printed on the Bonds. The Bonds may bear such endorsement or legend relating thereto as may be satisfactory to the Trustee and as may be required to conform to usage or law with respect thereto. The Bonds may be printed with a portion of the text printed on the reverse side of the Bonds and with a legend printed on the front referring to such text.

The Bonds shall be dated as of December 1, 1993, and shall mature on December 1, 2033, subject to prior redemption, upon the terms and conditions hereinafter set forth, and shall bear interest at the rate of 6.50% per annum, payable on each Interest Payment Date.

The Bonds shall be numbered consecutively from 1 upward. The Bonds shall bear interest from and including the Interest Payment Date next preceding the date of authentication and registration thereof, unless (i) they are authenticated and registered as of an Interest Payment Date, in which event they shall bear interest from and including the date of authentication and registration thereof, or (ii) they are registered and authenticated before the first Interest Payment Date, in which

event they shall bear interest from and including their date; provided, however, that if, as shown by the records of the Trustee, interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for on the Bonds, or, if no interest has been paid or duly provided for on the Bonds, from their date. The Bonds shall bear interest until payment of the principal or redemption price thereof shall have been made or provided for in accordance with the provisions hereof, whether at maturity, upon redemption or otherwise. Interest on the Bonds shall be computed upon the basis of a 360-day year, consisting of twelve 30-day months.

Payment of the interest on any Bond shall be made to the person appearing on the bond registration books of the Trustee as the holder thereof on the Record Date, such interest to be paid by the Trustee to such holder by check or draft mailed on the Interest Payment Date, to such holder's address as it appears on the registration books of the Trustee or at such other address as has been furnished to the Trustee in writing by such holder, such check or draft (or accompanying notice) to reflect the appropriate CUSIP number and appropriate dollar amounts for each CUSIP number related to such interest payment; except, in each case, that if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the holders in whose name any such Bonds are registered at the close of business on the Business Day next preceding the date of payment of such defaulted interest. Notwithstanding the foregoing, the Trustee will, at the request of any registered owner of $1,000,000 or more in aggregate principal amount of Bonds, make payments of interest on such Bonds by wire transfer in immediately available funds to the account designated by such owner to the Trustee in writing at least two (2) Business Days before the Record Date for such payments, any such designation to remain in effect until withdrawn. Both the principal of and premium, if any, on the Bonds shall be payable upon surrender thereof in lawful money of the United States of America at the Principal Office of the Trustee.

The Bonds shall be subject to redemption as provided in Article IV.

Section 2.02. Execution of Bonds. The Bonds shall be signed in the name and on behalf of the Issuer with the manual or facsimile signature of the Chairman of the Board of County Commissioners of the Issuer and the manual or facsimile signature of the Treasurer of the Issuer, under the seal of the Issuer, attested by the manual or facsimile signature of the County Clerk of the Issuer. Such seal may be in the form of a facsimile of the Issuer's seal and may be imprinted or impressed upon the Bonds. The Bonds shall then be delivered to the Trustee for authentication by it. In case any officer who shall have signed any of the Bonds shall cease for any reason to be such officer

before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee or issued by the Issuer, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issuance, shall be as binding upon the Issuer as though those who signed and attested the same had continued to be such officers of the Issuer. Also, any Bond may be signed on behalf of the Issuer by such persons as on the actual date of the execution of such Bond shall be the proper officers although on the nominal date of such Bond any such person shall not have been such officer.

Only such of the Bonds as shall bear thereon a certificate of authentication in the form recited in Exhibit A hereto, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

Section 2.03. Transfer and Exchange of Bonds; Book Entry System. The Bonds shall be initially issued in the form of a separate single fully registered Bond. Upon initial issuance, the ownership of such Bond shall be registered in the books maintained for the registration and transfer of Bonds by the Trustee pursuant to Section 2.04 hereof, in the name of Cede & Co., or any successor thereto ("Cede"), as nominee of The Depository Trust Company, New York, New York, and its successors and assigns ("DTC").

With respect to the Bonds registered in the name of Cede, as nominee of DTC, in the books maintained for the registration and transfer of Bonds by the Trustee, the Issuer and the Trustee shall have no responsibility or obligation to any broker-dealer, bank or other financial institution for which DTC holds Bonds from time to time as securities depositary (each such broker-dealer, bank or other financial institution being referred to herein as a "DTC Participant") or to any person on behalf of whom such a DTC Participant holds an interest in Bonds registered in the name of Cede. Without limiting the immediately preceding sentence, the Issuer and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a registered owner of a Bond as shown in the books maintained for the registration and transfer of Bonds by the Trustee, of any notice with respect to the Bonds, including any notice of redemption or mandatory purchase, or (iii) the payment to any DTC Participant or any other person, other than a registered owner of a Bond as shown in the books maintained by the Trustee for the registration and transfer of Bonds, of any amount with respect to principal of, premium, if any, or interest on the Bonds. The Issuer and the Trustee may treat and consider the person in whose name a Bond is registered in the books maintained for the registration and transfer of

Bonds by the Trustee as the holder and absolute owner of such Bond for the purpose of payment of principal of, premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of, premium, if any, and interest on the Bonds, only to or upon the order of the respective registered owners of the Bonds, as of each Record Date, as shown in the books maintained for the registration and transfer of Bonds by the Trustee, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Issuer's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than a registered owner of a Bond, as of each Record Date, as shown in the books maintained for the registration and transfer of Bonds by the Trustee, shall receive a Bond certificate evidencing the obligation of the Issuer to make payments of principal of, premium, if any, and interest on any Bond. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede, and subject to the provisions in Section 2.01 hereof with respect to the payment of interest to the registered owners of Bonds at the close of business on the Record Date next preceding the applicable Interest Payment Date, the name "Cede" in this Indenture shall refer to such new nominee of DTC.

The Issuer and the Trustee shall be entitled to treat the person in whose name any Bond is registered as the Bondholder thereof for all purposes of this Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Issuer; and the Issuer and the Trustee shall have no responsibility for transmitting payments to, communicating with, notifying or otherwise dealing with any beneficial owners of the Bonds. Neither the Issuer nor the Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including DTC or its successor (or substitute depository or its successor), except for the holder of any Bond.

So long as all outstanding Bonds are registered in the name of "Cede & Co." or its registered assign, the Issuer and the Trustee shall cooperate with "Cede & Co.", as sole registered Bondholder, and its registered assigns in effecting payment of the principal of, redemption premium, if any, and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

In the event that (i) the Company determines to discontinue the services of DTC, or (ii) the agreement among the Issuer, the Trustee and DTC evidenced by any such representation letter shall be terminated for any reason, the Issuer shall notify DTC and DTC Participants of the availability through DTC

of Bond certificates and the Bonds shall no longer be restricted to being registered in the books maintained for the registration and transfer of Bonds by the Trustee in the name of Cede, as nominee of DTC. At that time the Company may determine that the Bonds shall be registered in the name of and deposited with such other depository operating a universal book-entry system, as may be reasonably acceptable to the Issuer, or such depository's agent or designee, and if the Company does not select such alternate universal book-entry system, then the Bonds may be registered in whatever name or names registered owners of Bonds transferring or exchanging Bonds shall designate.

Any Bond may, in accordance with the terms of this Indenture, be transferred, upon the books of the Trustee required to be kept pursuant to the provisions of Section 2.04, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Bond shall be surrendered for transfer, the Issuer shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds of like tenor, in an Authorized Denomination, for the same aggregate principal amount. No transfers of Bonds shall be required to be made (a) during the period commencing seven (7) Business Days preceding the giving of any notice of redemption and ending on the date such notice is given, or (b) after any Record Date and prior to the related Interest Payment Date.

Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Bonds of Authorized Denominations of like tenor. The Trustee shall require the payment by the Bondholder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there shall be no other charge to any Bondholders for any such exchange. No exchange of Bonds shall be required to be made (a) during the period commencing seven (7) Business Days preceding the giving of any notice of redemption and ending on the date such notice is given, or (b) after any Record Date and prior to the related Interest Payment Date.

Section 2.04. Bond Register. The Trustee will keep or cause to be kept at its Principal Office sufficient books for the registration and transfer of the Bonds, which shall at all times during the Trustee's normal business hours be open to inspection by the Issuer and the Company; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as hereinbefore provided.

Section 2.05. Temporary Bonds. The Bonds may be issued initially in temporary form exchangeable for definitive Bonds when ready for delivery. Both the temporary Bonds and the definitive Bonds may be printed, lithographed or typewritten. The temporary Bonds shall be in Authorized Denominations and may

contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Issuer and be authenticated and registered by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Issuer issues temporary Bonds, it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of Authorized Denominations of like tenor. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

Section 2.06. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Issuer, at the expense of the holder of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in an Authorized Denomination, in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the order of, the Issuer. If any Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Issuer, the Company and the Trustee, and if such evidence be satisfactory to them and indemnity satisfactory to them shall be given, the Issuer, at the expense of the holder, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor, in an Authorized Denomination, in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond the Trustee may pay the same without surrender thereof). The Issuer may require payment of a reasonable fee for each new Bond issued under this Section and payment of the expenses which may be incurred by the Issuer and the Trustee. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Issuer whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

ARTICLE III

ISSUANCE OF BONDS

Section 3.01. Authentication and Delivery of Bonds. Forthwith upon the execution and delivery of this Indenture, upon the execution of the Bonds by the Issuer and delivery thereof to the Trustee, as hereinabove provided, and without any further

action on the part of the Issuer, the Trustee shall authenticate the Bonds in an aggregate principal amount not exceeding Seventy-Five Million Dollars ($75,000,000) and shall deliver the Bonds to or upon the Written Order of the Issuer.

Section 3.02. Application of Proceeds of Bonds. The proceeds received by the Issuer from the sale of the Bonds shall be deposited with the Trustee, who shall forthwith set aside such proceeds as follows:

(a) $189,583.33 of the proceeds of the sale of the Bonds, representing the amount received upon delivery of such Bonds as accrued interest, shall be deposited in the Bond Fund established pursuant to Section 5.03 hereof;

(b) $1,490,625 of the proceeds of the sale of the Bonds shall be deposited in the Costs of Issuance Fund established pursuant to Section 3.04 hereof; and

(c) the balance of the proceeds of the sale of the Bonds shall be deposited in the Construction Fund established pursuant to Section 3.03 hereof.

Section 3.03. Construction Fund. There is hereby created and established with the Trustee a trust fund in the name of the Issuer to be designated "Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation) 1993 Series A Construction Fund." The moneys in the Construction Fund shall be held by the Trustee in trust and applied to the payment of the Cost of the Project. Such moneys may be transferred to the account of the Bond Fund and used for the payment of interest becoming due and payable on the Bonds during the Construction Period, and shall be so used if and to the extent that the Trustee is so directed by a requisition conforming with the requirements of this Section and Section 3.3 of the Agreement.

Before each payment is made from the Construction Fund by the Trustee, there shall be filed with the Trustee a requisition conforming with the requirements of this Section and Section 3.3 of the Agreement, stating with respect to each payment to be made:

(1) the requisition number;

(2) the name and address of the person to whom payment is due;

(3) the purpose for which such payment is to be made;

(4) the amount to be paid;

(5) that each obligation mentioned therein has been properly incurred and is a proper charge against the Construction Fund;

(6) that none of the items for which payment is requested has been previously reimbursed from the Construction Fund; and

(7) that each item for which payment is requested is or was necessary in connection with the acquisition, construction, installation or financing of the Project.

Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein. Upon receipt of each such requisition, the Trustee shall pay the amount set forth therein as directed by the terms thereof.

The Construction Fund shall be closed upon the earlier of: (a) the disbursement of all moneys held therein or (b) the receipt by the Trustee of a certificate conforming with the requirements of Section 3.4 of the Agreement. In the event that the Trustee shall receive a certificate described in clause (b) of the immediately proceeding sentence, and after payment of costs payable from the Construction Fund or provision satisfactory to the Trustee having been made for payment of such costs not yet due as provided in such certificate, the Trustee shall transfer any remaining balance in the Construction Fund into a separate account within the Bond Fund, which the Trustee shall establish and hold in trust, and which shall be entitled the "Surplus Account." There shall also be deposited into the Surplus Account amounts received from the Company pursuant to Section 3.4 of the Agreement for the purpose of redeeming Bonds in the next largest principal amount divisible by Authorized Denominations. The moneys in the Surplus Account shall be used and applied (unless some other application of such moneys is requested by the Company and would not, in the opinion of Bond Counsel, cause interest on the Bonds to become no longer Tax-exempt) to the redemption of Bonds, to the maximum degree permissible, and at the earliest possible date at which such Bonds can be redeemed without payment of premium pursuant to this Indenture. Notwithstanding Section 5.04, the moneys in the Surplus Account shall be invested at the written direction of the Company in Permitted Investments having a non-variable yield no higher than the yield on the Bonds (unless in the opinion of Bond Counsel investment at a variable or higher non-variable yield would not cause interest on the Bonds to become no longer Tax-exempt), and all such investment income shall be deposited in the Surplus Account and expended or reinvested as provided above.

In the event of redemption of all the Bonds pursuant to Section 4.01 hereof or an Event of Default which causes acceleration of the Bonds, any moneys then remaining in the Construction Fund shall be transferred to the Bond Fund and used to pay the principal of the Bonds.

Section 3.04. Costs of Issuance Fund. There is hereby created and established with the Trustee a trust fund in the name of the Issuer to be designated "Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation) 1993

Series A Costs of Issuance Fund." The moneys in the Costs of Issuance Fund shall be held by the Trustee in trust and applied to the payment of Costs of Issuance.

Before each payment is made from the Costs of Issuance Fund by the Trustee, there shall be filed with the Trustee a requisition of the Company signed by an Authorized Company Representative, stating with respect to each payment to be made:

(1) the requisition number;

(2) the name and address of the person to whom payment is due;

(3) the purpose for which such payment is to be made;

(4) the amount to be paid;

(5) that each obligation mentioned therein has been properly incurred and is a proper charge against the Costs of Issuance Fund;

(6) that none of the items for which payment is requested has been previously reimbursed from the Costs of Issuance Fund; and

(7) that each item for which payment is requested is or was necessary in connection with the issuance of the Bonds.

Any money remaining in the Costs of Issuance Fund six (6) months after the Issue Date shall be transferred to the Construction Fund.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.01. Redemption of Bonds. The Bonds are subject to redemption to the extent the Company is entitled or required to make and makes a prepayment pursuant to Article VII of the Agreement. The Trustee shall not call the Bonds for optional redemption, and the Trustee shall not give notice of any such redemption, unless the Company has so directed in accordance with the Agreement; provided that the Company may be required to make such payment under Section 7.3 of the Agreement and, in the circumstances described in Section 7.5 of the Agreement, in the event of failure of the Company to give a notice of prepayment required by Section 7.5, such notice may be given by the Issuer, the Trustee or any holder or holders of ten percent (10%) or more in aggregate principal amount of Bonds Outstanding.

(a) Extraordinary Optional Redemption. (i) The Bonds shall be subject to redemption in whole at any time at the option of the Issuer at the direction of the Company at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the redemption date upon receipt by the Trustee of a written notice from the Company stating that the Board of Directors of the Company has determined in good faith, by a resolution of the Board, that any of the following events has occurred within the preceding one hundred eighty (180) days and that it therefore intends to exercise its option to prepay the payments due under the Agreement in whole pursuant to Section 7.2 of the Agreement and thereby effect the redemption of Bonds in whole:

(A) Changes in economic availability of raw materials, operating supplies or facilities necessary to operate all or a substantial part of the Project or technological or other changes which make the continued operation of the Project or such substantial portion uneconomical, in the opinion of the Company (expressed in a certificate filed with the Issuer and the Trustee), shall have occurred and shall have resulted in a cessation of all or substantially all of its normal operations of the Project.

(B) Unreasonable burdens or excessive liabilities shall have been imposed upon the Issuer or the Company affecting all or a substantial part of the Project, including without limitation federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Agreement.

(C) All or substantially all of the property of the Company shall be transferred or sold to any corporation other than an affiliate of the Company or the Company shall be consolidated with or merged into a corporation other than an affiliate of the Company in such manner that the Company is not the surviving corporation.

(ii) The Bonds shall be subject to redemption in whole or in part, on any date at the option of the Company, at a redemption price equal to 103% of the principal amount thereof, plus accrued interest, if any, to the redemption date, if the Company delivers to the Trustee, within one hundred eighty (180) days after the Company has made the determination referred to in clause (A), (B) or (C) below, a written notice to the effect that either

(A) (I) the Company has determined that some or all of the interest payable under the Agreement for any sixty (60) days (which need not be consecutive) within any consecutive twenty-four (24) month period is not or will not be deductible, in whole or in part, for federal income tax purposes by reason of Section 150(b) of the Code (or would not be deductible unless some or all of the Bonds are redeemed) due to a change in use of the Project or any

portion thereof, and (II) the Company will not claim deductions for such interest on its federal income tax returns; or

(B) (I) the Company has determined that there is "substantial authority" (within the meaning of Section 6662(d)(2)(B)(i) of the Code) to support the position that Section 150(b) of the Code will not prevent interest payable under the Agreement for any sixty (60) days (which need not be consecutive) within any consecutive twenty-four (24) month period from being deductible, in whole or in part, for federal income tax purposes, and (II) the Company after reasonable effort has been unable to obtain an opinion of independent counsel that it is more likely than not that Section 150 of the Code will not prevent deductions for such interest expense; or

(C) (I) the Company has used its best efforts to dissuade the Issuer from taking any action that might adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes, and (II) the Issuer nevertheless has notified the Company that the Issuer proposes to take action which, in the Opinion of Counsel, might adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

In the case of (A) or (B) of this subsection (ii), the Company may only direct the Trustee to redeem such principal amount of Bonds as the Company determines is necessary to assure that the Company retains its right to all such deductions otherwise allowable or, if a partial redemption will not enable the Company to retain the right to deduct such interest, the Company may direct the Trustee to redeem all the Outstanding Bonds or any portion thereof.

(b) Optional Redemption. On and after December 1, 2003, the Bonds shall be subject to redemption in whole or in part on any date, at the option of the Issuer at the direction of the Company, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued interest, if any, to the redemption date:

Redemption Dates (inclusive)	Redemption Prices
December 1, 2003, through November 30, 2004	102%
December 1, 2004, through November 30, 2005	101%
December 1, 2005 and thereafter	100%

(c) Mandatory Redemption. Upon the occurrence of the following events, the Bonds shall be redeemed at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date:

(i) in whole or in part upon a Determination of Taxability; provided, however, that all Bonds shall be redeemed upon such event unless, in the opinion of Bond Counsel delivered to the Trustee, the redemption of a specified portion of the Bonds Outstanding would have the result that interest payable on the Bonds remaining Outstanding after such redemption would be Tax-exempt to any holder of a Bond (other than a holder who is a "substantial user" of the Project or the Big Bear Lake Project or a "related person" within the meaning of Section 147(a) of the Code) and in such event the Bonds shall be redeemed (in Authorized Denominations) in such amount as Bond Counsel in such opinion shall have determined is necessary to accomplish that result upon compliance with the provisions of the Financing Agreement and this Indenture; or

(ii) in part on any date after the Completion Date to the extent of amounts on deposit in the Surplus Account after the Completion Date.

After the receipt by the Trustee of notice from the Company of the foregoing redemption pursuant to Section 7.5 of the Agreement, the Trustee shall give notice of such redemption as provided in Section 4.03 hereof. Upon the giving of such notice, the Bonds shall become due and payable on such redemption date at the redemption price equal to the principal amount thereof, plus accrued interest to the redemption date.

For purposes of Section 4.01(c)(i), "holders" or "owners" shall be deemed to include beneficial owners as described in Section 2.03.

Section 4.02. Selection of Bonds for Redemption. If less than all of the Bonds are called for redemption, the Trustee shall select the Bonds or any given portion thereof to be redeemed, from the Outstanding Bonds or such given portion thereof not previously called for redemption, by lot or in another manner which the Trustee deems to be fair. The Trustee shall promptly notify the Issuer in writing of the numbers of the Bonds or portions thereof so selected for redemption.

Section 4.03. Notice of Redemption. Notice of redemption shall be given by the Trustee for and on behalf of the Issuer, by Mail, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to (i) the Issuer, (ii) the holder of each Bond to be redeemed in whole or in part, (iii) the Securities Depositories and (iv) two or more Information Services. Each notice of redemption shall state the date of such notice, the complete name of the issue, including series designation, of the Bonds to be redeemed, the date of issue of the Bonds to be redeemed, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number of the Bonds, the source of the funds to be used for such redemption, the principal amount, the distinctive

certificate numbers of the Bonds or portions thereof to be redeemed, the interest rate on the Bonds to be redeemed and the maturity date of the Bonds to be redeemed, and shall also state that the interest on the Bonds designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Bonds the principal amount thereof to be redeemed, interest accrued thereon to the redemption date and the premium, if any, thereon (such premium to be specified), and shall require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

If upon the expiration of thirty (30) days succeeding any redemption date, any Bonds so called for redemption shall not have been presented to the Trustee for payment, the Trustee shall no later that sixty (60) days following such redemption date send Notice by Mail to the holder of each Bond not so presented.

Failure by the Trustee to give notice pursuant to this Section 4.03 to any one or more of the Information Services or Securities Depositories shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption pursuant to this Section 4.03 to any one or more of the respective holders of any Bonds designated for redemption, or any defect therein, shall not affect the sufficiency of the proceedings for redemption with respect to any other Bond.

Section 4.04. Partial Redemption of Registered Bonds. Upon surrender of any Bond redeemed in part only, the Trustee shall provide a replacement Bond of like tenor in a principal amount equal to the portion of such Bond not redeemed, and deliver it to the registered owner thereof. The Bond so surrendered shall be cancelled by the Trustee as provided herein. The Issuer and the Trustee shall be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.

Section 4.05. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the Trustee, the Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Bonds so called for redemption shall cease to accrue, said Bonds shall cease to be entitled to any lien, benefit or security under this Indenture, and the holders of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Bonds fully redeemed pursuant to the provisions of this Article IV shall be cancelled upon surrender thereof and may be destroyed by the Trustee, which shall, if requested in writing, thereupon deliver to the Issuer a certificate evidencing such destruction.

ARTICLE V

REVENUES

Section 5.01. Pledge and Assignment of Revenues. All of the Revenues are hereby irrevocably pledged and assigned to the Trustee for the punctual payment of the principal of, interest and premium, if any, on the Bonds, and such Revenues shall not be used for any other purpose while any Bonds remain Outstanding. Said pledge and assignment shall constitute a first and exclusive lien on such Revenues for the payment of the Bonds in accordance with the terms thereof. The Trustee hereby accepts such assignment.

All Revenues shall be held in trust for the benefit of the holders from time to time of the Bonds issued hereunder, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes hereinafter in this Article V set forth.

Section 5.02. Bonds Not General Obligations. The Bonds shall never constitute the debt or indebtedness of the Issuer or the State of Nevada (or any other political subdivision thereof) within the meaning of any provision or limitation of the constitution or statutes of the State of Nevada, and shall not constitute nor give rise to a pecuniary liability of, or a charge against the general credit or taxing powers of the Issuer or the State of Nevada (or any other political subdivision thereof). The Bonds and the premium, if any, and the interest thereon shall be special, limited obligations of the Issuer payable solely from the Revenues of the Issuer derived from the Agreement and the other moneys pledged therefor under this Indenture.

Section 5.03. Bond Fund. (a) There is hereby created and established with the Trustee a trust fund in the name of the Issuer to be designated "Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation) 1993 Series A Bond Fund." The Bond Fund, and all moneys and certificated securities therein, shall be kept in the possession of the Trustee.

(b) Upon the receipt thereof, the Trustee shall deposit all accrued interest paid upon the delivery of the Bonds and all Revenues (except as otherwise provided herein) in the Bond Fund, which the Trustee shall maintain and hold in trust, and which shall be disbursed and applied only as hereinafter authorized. Moneys in the Bond Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Bonds as the same shall become due and payable at maturity, upon redemption or otherwise; provided, however, that on the fifth day after each Interest Payment Date, any moneys remaining in the Bond Fund (except moneys held in the Surplus Account) on such date and not required to pay interest on or principal of the Bonds then due and payable shall be returned to the Company.

Section 5.04. Trustee Authorized to Take Actions Under the Agreement. The Issuer hereby authorizes and directs the Trustee, and the Trustee hereby agrees, to take such actions as the Trustee, in its sole and absolute discretion, deems necessary to enforce the Company's obligation under the Financing Agreement to make payments at the times and in the amounts required thereunder to make timely payment of principal of and interest on the Bonds to the extent Bond proceeds and other moneys in the Bond Fund are not available for such payment in accordance with the provision of Section 5.03 of this Indenture.

Section 5.05. Investment of Moneys. Subject to the limitations in Sections 3.03 and 5.08 hereof, any moneys in any of the funds and accounts to be established by the Trustee pursuant to this Indenture, shall be invested by the Trustee upon the written direction of the Company, if and to the extent then permitted by law, in Investment Securities. In the absence of such direction, the Trustee shall invest solely in units of a money market portfolio restricted to obligations issued by, or guaranteed by the full faith and credit of, the United States of America, or repurchase agreements collateralized by such obligations. Moneys in any fund or account shall be invested in Investment Securities with respect to which payments of principal and interest are scheduled or otherwise payable not later than the date on which it is estimated that such moneys will be required by the Trustee.

Any interest, profit or loss on such investments shall be credited or charged to the respective funds from which such investments are made. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss resulting from such sale or redemption of such investment.

Section 5.06. Assignment to Trustee; Enforcement of Obligations. The Issuer hereby transfers, assigns and sets over to the Trustee any and all rights and privileges it has under the Agreement with respect to the Bonds issued hereunder, except the Issuer's right to receive payments under Sections 4.2(c), 6.3, 8.2 and 8.3 of the Agreement and the Issuer's right to consent to amendments of the Project under Section 3.1 of the Agreement, but including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security interest; and any Revenues collected or received by the Issuer shall be deemed to be held, and to have been collected or received, by the Issuer as the agent of the Trustee, and shall forthwith be paid by the Issuer to the Trustee. The Trustee also shall be entitled to and shall take all steps, actions and proceedings reasonably necessary in its judgment (1) to enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under, the Agreement, and (2) to assure compliance with all covenants, agreements and conditions on the part of the Issuer contained in this Indenture with respect to the Revenues.

Section 5.07. Repayment to Company. When there are no longer any Bonds Outstanding and all fees, charges and expenses of the Trustee and any paying agents have been paid or provided for, and all expenses of the Issuer relating to the Project and this Indenture have been paid or provided for, and all other amounts payable hereunder, including without limitation the Rebate Amount, and under the Agreement have been paid, and this Indenture has been discharged and satisfied, the Trustee shall pay to the Company any amounts remaining in any fund established and held hereunder.

Section 5.08. Rebate Fund. The Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the "Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation) 1993 Series A Rebate Fund." Within the Rebate Fund, the Trustee shall maintain such accounts as it is instructed by the Company as shall be necessary in order to comply with the terms and requirements of the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Certificate), for payment to the federal government of the United States of America, and none of the Issuer, the Trustee, the Company nor the holder of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section 5.08 and by the Tax Certificate (which is incorporated herein by reference).

The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Company, including supplying all necessary information in the manner provided in the Tax Certificate, shall not be required to take any actions thereunder in the absence of written directions by the Company, and shall have no liability or responsibility to enforce compliance by the Company or the Issuer with the terms of the Tax Certificate.

Notwithstanding any other provision of this Indenture, including in particular Article X hereof, the obligation to remit the Rebate Amounts to the United States and to comply with all other requirements of this Section 5.08 and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

ARTICLE VI

COVENANTS OF THE ISSUER

Section 6.01. Payment of Principal and Interest. The Issuer shall punctually pay, but only out of Revenues as herein provided, the principal and the interest (and premium, if any) to become due in respect of every Bond issued hereunder at the times and places and in the manner provided herein and in the Bonds according to the true intent and meaning thereof. When and as

paid in full, all Bonds, if any, shall be delivered to the Trustee, shall forthwith be cancelled and shall, at the instruction of the Company, thereafter be destroyed.

Section 6.02. Extension or Funding of Claims for Interest. The Issuer shall not, directly or indirectly, extend or assent to the extension of the time for the payment of any claim for interest on any of the Bonds, and shall not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding such claims or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the Issuer, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Section 6.03. Paying Agents. The Issuer, with the written approval of the Trustee and the Company, may appoint and at all times have one or more paying agents (which shall meet the qualification of the Trustee set forth in Section 8.07 hereof) in such place or places as the Issuer may designate, for the payment of the principal of, and the interest (and premium, if any) on, the Bonds. All provisions of Article VIII which apply to the Trustee shall apply to any paying agent appointed hereunder. It shall be the duty of the Trustee to make such arrangements with any such paying agent as may be necessary to assure, to the extent of the moneys held by the Trustee for such payment, the prompt payment of the principal of and interest and premium, if any, on the Bonds presented at either place of payment. The paying agent initially appointed hereunder is the Trustee.

Section 6.04. Preservation of Revenues. The Issuer shall not waive any provision of the Agreement or take any action to interfere with or impair the pledge and assignment hereunder of Revenues, the assignment to the Trustee of rights under the Agreement or the Trustee's enforcement of any rights thereunder, without the prior written consent of the Trustee. The Trustee may give such written consent, and may itself take any such action or consent to an amendment or modification to the Agreement or to any other document, instrument or agreement relating to the security for the Bonds only in accordance with the provisions of Article IX hereof.

Section 6.05. Compliance with Indenture. The Issuer shall not issue, or permit to be issued, any Bonds secured or payable in any manner out of Revenues in any manner other than in accordance with the provisions of this Indenture, and shall not suffer or permit any default to occur under this Indenture, but shall faithfully observe and perform all the covenants, conditions and requirements hereof.

Section 6.06. Other Liens. So long as any Bonds are Outstanding, the Issuer shall not create or suffer to be created

any pledge, lien or charge of any type whatsoever upon all or any part of the Trust Estate, other than the lien of this Indenture.

Section 6.07. Further Assurances. Whenever and so often as requested so to do by the Trustee, the Issuer shall promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Bondholders all of the rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by this Indenture and to perfect and maintain as perfected such rights, interests, powers, benefits, privileges and advantages.

ARTICLE VII

DEFAULT

Section 7.01. Events of Default; Acceleration; Waiver of Default. Each of the following events shall constitute an "Event of Default" hereunder:

(a) Failure to make payment of any installment of interest upon any Bond for a period of five (5) Business Days after such payment has become due and payable;

(b) Failure to make due and punctual payment of the principal of and premium, if any, on any Bond when the same shall have become due and payable, whether at the stated maturity thereof, or upon proceedings for redemption thereof or upon the maturity thereof by declaration;

(c) The occurrence of an "event of default" under the Agreement, as specified in Section 6.1 thereof; or

(d) Default by the Issuer in the performance or observance of any other of the covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, and the continuance of such default for a period of ninety (90) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Issuer and the Company by the Trustee, or to the Issuer, the Company and the Trustee by the holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding.

No default specified in (d) above shall constitute an Event of Default unless the Issuer and the Company shall have failed to correct such default within the applicable period; provided, however, that if the default shall be such that it can be corrected, but cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is

instituted by the Issuer or the Company within the applicable period and diligently pursued until the default is corrected. With regard to any alleged default concerning which notice is given to the Company under the provisions of this Section, the Issuer hereby grants the Company full authority for account of the Issuer to perform any covenant or obligation the non-performance of which is alleged in said notice to constitute a default in the name and stead of the Issuer with full power to do any and all things and acts to the same extent that the Issuer could do and perform any such things and acts and with power of substitution.

Upon the occurrence and continuation of an Event of Default, the Trustee may, and upon the written request of the holders of not less than 25% in aggregate principal amount of Bonds then Outstanding shall, by notice in writing delivered to the Company and the Issuer, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable. Notwithstanding the foregoing, the Trustee shall not be required to take any action upon the occurrence and continuation of an Event of Default under clause (c) or (d) of the first paragraph of this Section 7.01 until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. Upon any such declaration of acceleration, interest shall cease to accrue and the Trustee shall declare all indebtedness payable under Section 4.2(a) of the Agreement to be immediately due and payable in accordance with Section 6.2 of the Agreement and may exercise and enforce such rights as exist under the Agreement.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, there shall have been deposited with the Trustee a sum sufficient to pay all the principal of the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal as provided in the Agreement, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the holders of a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Issuer and to the Trustee, may, on behalf of the holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Section 7.02. Institution of Legal Proceedings by Trustee. If one or more of the Events of Default specified in Section 7.01 shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the holders of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding and upon being indemnified to its satisfaction therefor shall, proceed to protect or enforce its rights or the rights of the holders of Bonds under the Act or under this Indenture, by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties hereunder.

Section 7.03. Application of Moneys Collected by Trustee. Any moneys collected by the Trustee pursuant to Section 7.02 shall be applied in the order following, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal (or premium, if any) or interest, upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First: To the payment of costs and expenses of collection, just and reasonable compensation to the Trustee for its own services and for the services of counsel, agents and employees by it properly engaged and employed, and all other expenses and liabilities incurred, and for advances made pursuant to the provisions of this Indenture.

Second: In case the principal of none of the Bonds shall have become due and remains unpaid, to the payment of interest in default, such payments to be made ratably and proportionately to the persons entitled thereto without discrimination or preference, except as specified in Section 6.02.

Third: In case the principal of any of the Bonds shall have become due by declaration or otherwise and remains unpaid, first to the payment of principal of all Bonds then due and unpaid, then to the payment of interest in default, then to the payment of the premium thereon, if any, and then to the payment of interest on the overdue principal and interest at the rate then borne by the Bonds; in every instance such payment to be made ratably to the persons entitled thereto without discrimination or preference, except as specified in Section 6.02.

If such moneys are invested, they shall be invested only in Permitted Investments having a maturity of thirty (30) days or less.

Section 7.04. Effect of Delay or Omission to Pursue Remedy. No delay or omission of the Trustee or of any holder of Bonds to exercise any right or power arising from any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given by this Article VII to the Trustee or to the holders of Bonds may be exercised from time to time and as often as shall be deemed expedient. In case the Trustee shall have proceeded to enforce any right under this Indenture, and such proceedings shall have been discontinued or abandoned because of waiver or for any other reason, or shall have been determined adversely to the Trustee, then and in every such case the Issuer, the Trustee and the holders of the Bonds, severally and respectively, shall be restored to their former positions and rights hereunder with respect to the Trust Estate; and all remedies, rights and powers of the Issuer, the Trustee and the holders of the Bonds shall continue as though no such proceedings had been taken.

Section 7.05. Remedies Cumulative. No remedy herein conferred upon or reserved to the Trustee or to any holder of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity.

Section 7.06. Covenant to Pay Bonds in Event of Default. The Issuer covenants that, upon the happening of any Event of Default, the Issuer will pay to the Trustee upon demand, but only out of Revenues, for the benefit of the holders of the Bonds, respectively, the whole amount then due and payable thereon (by declaration or otherwise) for interest or for principal and premium, or both, as the case may be, and all other sums which may be due hereunder or secured hereby, including reasonable compensation to the Trustee, its agents and counsel, and any expenses or liabilities incurred by the Trustee hereunder. In case the Issuer shall fail to pay the same forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled to institute proceedings at law or in equity in any court of competent jurisdiction to recover judgment for the whole amount due and unpaid, together with costs and reasonable attorneys' fees, subject, however, to the condition that such judgment, if any, shall be limited to, and payable solely out of, Revenues as herein provided and not otherwise. The Trustee shall be entitled to recover such judgment as aforesaid, either before or after or during the pendency of any proceedings for the enforcement of this Indenture, and the right of the Trustee to recover such judgment shall not be affected by the exercise of any other right, power or remedy for the enforcement of the provisions of this Indenture.

Section 7.07. Trustee Appointed Agent for Bondholders. The Trustee is hereby appointed the agent and attorney of the

holders of all Bonds Outstanding hereunder for the purpose of filing any claims relating to the Bonds.

Section 7.08. Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the holders of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the holders of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default hereunder, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the holders of a majority in principal amount of the Bonds Outstanding hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Section 7.09. Limitation on Bondholders' Right to Sue. No holder of any Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, unless (a) such holder shall have previously given to the Trustee written notice of the occurrence of an Event of Default hereunder; (b) the holders of not less than twenty-five percent (25%) in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of thirty (30) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any holder of Bonds of any remedy hereunder; it being understood and intended that no one or more holders of Bonds shall have any right in any manner whatever by his or her or their action to enforce any right under this Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all holders of the Outstanding Bonds (subject to the provisions of Section 6.02).

The right of any holder of any Bond to receive payment of the principal of (and premium, if any) and interest on such

Bond out of Revenues, as herein and therein provided, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such holder, notwithstanding the foregoing provisions of this Section or Section 7.08 or any other provision of this Indenture.

Section 7.10. Limitation of Liability to Revenues. Notwithstanding anything in this Indenture contained, the Issuer shall not be required to advance any moneys derived from the proceeds of taxes collected by the Issuer or by any governmental body or political subdivision of the State of Nevada or from any source of income of any governmental body or political subdivision of the State of Nevada or the Issuer other than the Revenues, for any of the purposes in this Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of this Indenture. The Bonds are not general obligations of the Issuer, and are payable from and secured by the Revenues only.

ARTICLE VIII

THE TRUSTEE

Section 8.01. Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs. Notwithstanding any other provision of this Indenture, the Trustee shall perform all duties required of it hereunder.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action or its own negligent failure to act, except that:

(a) Prior to such an Event of Default hereunder and after the curing of all Events of Default which may have occurred,

(1) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture. The Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee conforming to the requirements of this Indenture; but in the case of any such certificate or opinion which by any provision hereof is specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not it conforms to the requirements of this Indenture;

(b) At all times, regardless of whether or not any Event of Default shall exist,

(1) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or officers of the Trustee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(2) the Trustee shall not be personally liable for any action taken, permitted or omitted by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or power conferred upon it by this Indenture unless it shall be proved that the Trustee was negligent.

(c) The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents or receivers, and shall be entitled to advice of counsel concerning all matters of trust and concerning its duties hereunder.

(d) The Trustee shall not be bound to make any investigation into the facts of matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, or other paper or document, unless requested in writing to do so by the Company, any holder of Bonds or the Issuer; provided, however, that if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in connection with making such investigation shall be, in the sole opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such cost, expense or liability as a condition to proceeding with such investigation. The reasonable expense of every such investigation shall be paid by the Company.

(e) Notwithstanding any other provision of this Indenture or the Agreement, the Trustee shall not be charged with knowledge of any Event of Default under clause (c) or (d) of Section 7.01 of this Indenture or any failure by the

Company to comply with the obligations of the Company set forth in the Agreement unless a Responsible Officer of the Trustee obtains actual knowledge of such Event of Default or failure to comply, as the case may be, which may be in the form of written notice delivered to the Trustee pursuant to Section 11.07.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Section 8.02. Right of Trustee to Rely upon Documents, Etc.

(a) The Trustee may conclusively rely and shall be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, Bond, direction, demand or election or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) Any notice, request, direction, election, order or demand of the Issuer mentioned herein shall be sufficiently evidenced by an instrument signed in the name of the Issuer by the Chairman of the Board of County Commissioners of the Issuer, and any resolution of the Issuer may be evidenced to the Trustee by a Certified Resolution;

(c) The Trustee may consult with counsel (who may be counsel for the Issuer or Bond Counsel) and the opinion or advice of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion or advice of such counsel;

(d) Whenever in the administration of the trusts of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, as the case may be, be deemed to be conclusively proved and established by a Certificate of the Issuer; and such Certificate of the Issuer shall, in the absence of negligence or bad faith on the part of the Trustee, be full warrant to the Trustee for any action taken or suffered by it under the provisions of this Indenture upon the faith thereof; and

(e) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or

negligence on the part of any agent or attorney appointed with due care by it hereunder.

Section 8.03. Trustee Not Responsible for Recitals. The recitals contained herein and in the Bonds shall be taken as the statements of the Issuer, and the Trustee assumes no responsibility for the correctness of the same except for the Certificate of Authentication on the Bonds. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Bonds. The Trustee shall not be accountable for the use or application by the Issuer or the Company of any of the Bonds authenticated or delivered hereunder or of the proceeds of such Bonds.

Section 8.04. Right of Trustee to Acquire Bonds. The Trustee and its officers and directors may acquire and hold, or become the pledgee of, Bonds and otherwise deal with the Issuer in the manner and to the same extent and with like effect as though it were not Trustee hereunder.

Section 8.05. Moneys Received by Trustee to Be Held in Trust. Subject to the provisions of Section 10.03, all moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. Any interest allowed on any such moneys shall be deposited in the fund to which such moneys are credited. Any moneys held by the Trustee may be deposited by it in its banking department and invested as provided herein.

Section 8.06. Compensation and Indemnification of Trustee. The Trustee shall be entitled to reasonable compensation for all services rendered by it in the execution of the trusts created and in the exercise and performance of any of the powers and duties hereunder of the Trustee which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust, and the Financing Agreement will require the Company to pay or reimburse the Trustee upon its request for all expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. If any property, other than cash, shall at any time be held by the Trustee subject to this Indenture, or any Supplemental Indenture, as security for the Bonds, the Trustee, if and to the extent authorized by a receivership, bankruptcy or other court of competent jurisdiction or by the instrument subjecting such property to the provisions of this Indenture as such security for the Bonds, shall be entitled to make advances for the purpose of preserving such property or of discharging tax liens or other prior liens or encumbrances thereon. The Financing Agreement will also require the Company to indemnify the Trustee and its officers, directors, employees and agents

for, and to hold them harmless against, any loss, liability, expense or advance incurred or made without negligence or bad faith on the part of the Trustee arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim of liability in the premises. Notwithstanding the foregoing, the Trustee shall make timely payments of principal of and interest on the Bonds with moneys on deposit in the Bond Fund as provided herein, and shall accelerate the payment of principal on the Bonds when required by this Indenture. Subject to Section 7.03 hereof, the rights of the Trustee to compensation for its services and to payment or reimbursement for expenses, disbursements, liabilities and advances shall have priority over the Bonds in respect of all property and funds held or collected by the Trustee as such, and other funds held in trust by the Trustee for the benefit of the holders of particular Bonds.

Section 8.07. Qualifications of Trustee. There shall at all times be a trustee hereunder which shall be a bank, trust company or national association organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least Fifty Million Dollars ($50,000,000), and subject to supervision or examination by federal or state authority. If such corporations or banking associations publish reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such corporations or banking associations shall be deemed to be their combined capital and surplus as set forth in their most recent reports of conditions so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, the Trustee shall resign immediately in the manner and with the effect specified in Section 8.08.

Section 8.08. Resignation and Removal of Trustee and Appointment of Successor Trustee. (a) The Trustee may at any time resign by giving written notice to the Issuer and by giving to the Bondholders Notice by Mail. Upon receiving such notice of resignation, the Issuer, with the advice and consent of the Company, shall promptly appoint a successor trustee by an instrument in writing. If no successor trustee shall have been so appointed and have accepted appointment within thirty days after the Trustee's giving of such notice of resignation, the resigning trustee may petition any court of competent jurisdiction for the appointment of a successor trustee or any Bondholder who has been a bona fide holder of a Bond for at least six months may, on behalf of himself and others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor.

(b) In case at any time either of the following shall occur:

(1) the Trustee shall cease to be eligible in accordance with the provisions of Section 8.07 and shall fail to resign after written request therefor by the Issuer or by any Bondholder who has been a bona fide holder of a Bond for at least six months, or

(2) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Issuer shall remove the Trustee and, with the advice and consent of the Company, appoint a successor trustee by an instrument in writing; and if the Issuer fails to remove the Trustee and appoint a successor within sixty (60) days after an event described in clauses (1) or (2) above, any Bondholder may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, remove the Trustee and appoint a successor trustee.

(c) The Issuer, in the absence of an Event of Default, with the advice and consent of the Company, or the holders of a majority in aggregate principal amount of the Bonds at the time Outstanding may at any time remove the Trustee and appoint a successor trustee by an instrument or concurrent instruments in writing signed by the Issuer or such Bondholders, as the case may be.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section shall become effective upon acceptance of appointment by the successor trustee as provided in Section 8.09.

Section 8.09. Acceptance of Trust by Successor Trustee. Any successor trustee appointed as provided in Section 8.08 shall execute, acknowledge and deliver to the Issuer and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts hereunder, with like effect as if originally named as Trustee herein; but, nevertheless, on the Written Request of the Issuer or the request of the successor trustee, the trustee ceasing to act shall

execute and deliver an instrument transferring to such successor trustee, upon the trusts herein expressed, all the rights, powers and trusts of the trustee so ceasing to act. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing necessary or desirable for more fully and certainly vesting in and confirming to such successor trustee all such rights, powers and duties. Any trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such trustee to secure the amounts due it as compensation, reimbursement, expenses and indemnity afforded to it by Section 8.06.

No successor trustee shall accept appointment as provided in this Section 8.09 unless at the time of such acceptance such successor trustee shall be eligible under the provisions of Section 8.07.

Upon acceptance of appointment by a successor trustee as provided in this Section, the Issuer or such successor trustee shall give Bondholders notice of the succession of such trustee to the trusts hereunder in the manner prescribed in Section 8.08 for the giving of notice of resignation of the Trustee.

Section 8.10. Merger or Consolidation of Trustee. Any corporation or banking association into which the Trustee may be merged or with which it may be consolidated, or any corporation or banking association resulting from any merger or consolidation to which the Trustee shall be a party, or any corporation or banking association succeeding to the business of the Trustee, shall be the successor of the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding, provided that such successor trustee shall be eligible under the provisions of Section 8.07.

Section 8.11. Accounting Records and Reports. The Trustee shall keep proper books of record and account in which complete and correct entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the Revenues and the proceeds of the Bonds. Such records shall specify the account or fund to which each investment (or portion thereof) held by the Trustee is to be allocated and shall set forth, in the case of each Investment Security, (a) its purchase price, (b) identifying information, including par amount, interest rate, and maturity dates, (c) the amount received at maturity or its sale price, as the case may be, (d) the amounts and dates of any payments made with respect thereto, and (e) such documentation as is required to be retained by the Trustee as evidence to establish that the requirements of Article V of the Tax Certificate have been met. Such records shall be open to inspection by any holder, the Company or the Issuer at any reasonable time during normal business hours of the Trustee on reasonable notice.

Section 8.12. Registrars. The Issuer may appoint a registrar for the Bonds and hereby appoints, as initial registrar, the Trustee. Each registrar shall be a bank, trust company or national banking association which meets the qualifications of Section 8.07 hereof, willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it hereby. Each registrar (other than the Trustee, as initial registrar) shall signify its acceptance of the duties and obligations imposed upon it hereby by executing and delivering to the Issuer and the Trustee a written acceptance thereof.

Section 8.13. Appointment of Separate or Co-Trustee. It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction (including, without limitation, the law of the State of Nevada) denying or restricting the rights of banking corporations or associations to transact business as trustees in such jurisdiction. It is recognized that in the event that the Trustee shall not be permitted to, by reason of litigation under this Indenture or the Agreement or the enforcement thereof on default, or in the event that the Trustee deems that by reason of any present or future laws of any jurisdiction, it may not, exercise any of the powers, rights or remedies herein granted to the Trustee or hold title to the properties or estates, in trust, as herein granted, or take any action which may be desirable or necessary in connection therewith, the Trustee shall have the power to appoint an additional Person or Persons (which need not meet the eligibility requirements set forth in Section 8.07) as separate or co-trustee. The following provisions are adapted to those ends.

In the event that the Trustee appoints an additional Person as separate or co-trustee, each and every power, right, remedy, duty, obligation, property or estate expressed by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by, vested in, assumed by and conveyed to such separate or co-trustee but only to the extent necessary to enable such separate or co-trustee to exercise such powers, rights and remedies, or perform such duties and obligations, and only to the extent that the Trustee by the laws of any jurisdiction (including, without limitation, the State of Nevada) is incapable of exercising, assuming or being vested with or conveyed such powers, rights, remedies, duties, obligations, properties or estates, and every covenant and obligation necessary to the exercise thereof by such separate or co-trustee shall run to and be enforceable by the Trustee or such separate or co-trustee, subject to all the provisions of this Indenture including every provision relating to the conduct of, affecting the liability of, or affording protection to, the Trustee. Any power, right, remedy, duty or obligation conferred or imposed upon the Trustee shall be conferred or imposed upon and exercised or performed by the Trustee and such separate or co-trustee jointly, except to the extent that under the law of any jurisdiction in which any particular act or acts are to be performed (including the holding of title to the Trust Estate)

the Trustee shall be incompetent or incapable to perform such act or acts, in which event such powers, rights, remedies, duties and obligations shall be exercised and performed only by such separate or co-trustee. No power which pursuant to this Section 8.13 is exercisable by any such separate or co-trustee may be exercised except jointly with, or with the written consent of, the Trustee, and no appointment of, or action by, any separate or co-trustee shall relieve the Trustee of any of its obligations hereunder or otherwise affect the terms of this Indenture or the interests of the holders of the Bonds in the Trust Estate. The Trustee shall give written notice of the appointment of any separate or co- trustee to the Issuer and the Company, but shall not be required to give notice of such appointment to the Bondholders.

Should any instrument in writing from the Issuer be required by the separate or co-trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to him or it such powers, rights, remedies, duties, obligations, properties or estates hereunder, any and all such instruments in writing shall, on request, if such instruments impose no additional duties, responsibilities or liabilities on the Issuer or otherwise adversely affect the Issuer, be executed, acknowledged and delivered by the Issuer at the expense of the Company. Any notice, demand, request or other instrument or writing given to the Trustee shall be deemed to have been given to each of the separate and co-trustees as effectively as if given to each of them. In case any separate or co-trustee or a successor to either shall die, become incapable of acting, resign or be removed, all the powers, rights, remedies, duties, obligations and interests of such separate or co- trustee hereunder, so far as permitted by law, shall vest in and be executed by the Trustee. The Trustee shall be entitled to remove any separate or co-trustee appointed by the Trustee upon written notice to the Issuer, the Company and such separate or co-trustee. The Trustee shall immediately remove any separate or co-trustee appointed by it hereunder upon cessation of the conditions requiring such appointment.

Section 8.14. Notices to the Issuer. The Trustee shall provide the Issuer with the following:

(a) Upon any significant change that occurs which would adversely impact the Trustee's ability to perform its duties under the Indenture, a written disclosure of any such change, or if applicable, of any conflicts that the Trustee may have as a result of other business dealings between the Trustee and the Company; and if there are no such instances of a significant change, or of a conflict existing, then a statement to that effect shall be provided on or before each anniversary of the date of the Bonds while any of the Bonds are Outstanding; and

(b) If there is a failure to pay any amount of principal of, premium, if any, or interest on the Bonds when due; or if there is a failure of the Company to provide any notice,

certification or report specified in Section 5.3 of the Agreement; or if there is an occurrence of any other Event of Default hereunder of which a Responsible Officer of the Trustee has actual knowledge, the Trustee shall provide written notice to the Issuer within five (5) Business Days of such occurrence and such notice shall include a statement setting forth the steps the Trustee is taking to remedy such failure or Event of Default, as applicable.

Section 8.15. Special Bondholder Requests. Upon receipt of a written request from a person or entity stating that such person or entity is the beneficial owner of Bonds, the Trustee shall send, to the address designated by such beneficial owner:

(i) at the time any notice is given to Bondholders pursuant to this Indenture, a copy of any such notice;

(ii) upon reasonable request and payment by such beneficial owner of processing and mailing expenses, a report specifying (A) the amount of Bonds then Outstanding, (B) a redemption history with respect to the Bonds which shall include redemption dates and redemption prices with respect to all redemptions prior to the date of such report, and (C) the current status of insurance coverage with respect to the Project (to the extent the Company has provided information with respect thereto); and

(iii) within fifteen (15) days after the occurrence of an Event of Default under clause (a) or (b) of the first paragraph of Section 7.01 or upon receipt by a Responsible Officer of the Trustee of actual knowledge of the occurrence of any other Event of Default, notice by Mail of any such Event of Default, unless such Event of Default is cured or waived prior to the giving of such notice.

Neither the Issuer nor the Trustee shall be liable for any failure by the Trustee to send any report or notice specified in this Section 8.15 to any beneficial owner, or any defect contained in any such report or notice, and any such failure or defect shall not affect the sufficiency of any proceedings under this Indenture.

ARTICLE IX

MODIFICATION OF INDENTURE, DOCUMENTS

Section 9.01. Modification without Consent of Bondholders. The Issuer and the Trustee, without the consent of or notice to any Bondholders, from time to time and at any time, and subject to the conditions and restrictions contained in this Indenture, may enter into an indenture or indentures supplemental hereto, which indenture or indentures thereafter shall form a part hereof; and the Trustee, without the consent of or notice to

any Bondholders, from time to time and at any time, may consent to an amendment or modification to the Financing Agreement or to any other document, instrument or agreement relating to the security for the Bonds; in each case for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Issuer contained in this Indenture, or of the Company contained in the Financing Agreement, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for the Bonds, or to surrender any right or power reserved to or conferred upon the Issuer herein or reserved to or conferred upon the Company in the Financing Agreement;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision contained in this Indenture or in the Financing Agreement or such other document, instrument or agreement, or in regard to matters or questions arising under this Indenture or the Financing Agreement, as the Issuer may deem necessary or desirable and not inconsistent with this Indenture;

(c) to modify, amend or supplement this Indenture or any indenture supplemental hereto in such manner as to permit the qualification hereof or thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, and, if they so determine, to add to this Indenture or any indenture supplemental hereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;

(d) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-exempt status of interest on the Bonds;

(e) to provide for any modifications in the book-entry registration system for the Bonds, or to eliminate such system;

(f) to provide for the procedures required to permit any Bondholder to separate the right to receive interest on the Bonds from the right to receive principal thereof and to sell or dispose of such rights, as contemplated by Section 1286 of the Code;

(g) to provide for the appointment of a co-trustee or the succession of a new Trustee;

(h) to change Exhibit A to the Financing Agreement in accordance with the provisions thereof and of the Tax Certificate and the Engineering Certificate; and

(i) in connection with any other change which, in the judgment of the Trustee, will not adversely affect the security for the Bonds or the Tax-exempt status thereof or otherwise materially adversely affect the holders of the Bonds.

Notwithstanding the foregoing, the Trustee shall not enter into any such Supplemental Indenture during such time as no Event of Default shall have occurred and be continuing without first obtaining the written consent of the Company.

Section 9.02. Modification with Consent of Bondholders. With the consent of the holders of not less than sixty percent (60%) in aggregate principal amount of the then Outstanding Bonds, evidenced as provided in Section 11.08, (i) the Issuer and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any Supplemental Indenture; or (ii) the Trustee may consent to any of the matters for which its consent is required pursuant to Section 6.04 hereof, including any amendment to or modification of the Financing Agreement or any other document relating to the security for the Bonds; provided, however, that no such amendment or modification will have the effect of extending the time for payment or reducing any amount due and payable by the Company pursuant to the Financing Agreement without the consent of all the holders of the Bonds; and that no such Supplemental Indenture shall (1) extend the fixed maturity of any Bond or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the holder of each Bond so affected, or (2) reduce the aforesaid percentage of holders of Bonds whose consent is required for the execution of such amendments to the Financing Agreement or other documents or such Supplemental Indentures, or extend the time of payment, or permit the creation of any lien on the Trust Estate prior to or on a parity with the lien of this Indenture, except as permitted herein, or permit the creation of any preference of any Bondholder over any other Bondholder or deprive the holders of the Bonds of the lien created by this Indenture upon the Trust Estate, without the consent of the holders of all the Bonds then Outstanding. Upon receipt by the Trustee of a Certified Resolution authorizing the execution of any such Supplemental Indenture, and upon the filing with the Trustee of evidence of the consent of Bondholders, as aforesaid, the Trustee shall join with the Issuer in the execution of such Supplemental Indenture, unless (i) such Supplemental Indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such Supplemental Indenture; or (ii) such Supplemental Indenture affects the rights or obligations of the Company hereunder or under the Financing Agreement, in which case the Trustee shall

enter into such Supplemental Indenture only if the Trustee has received the Company's written consent thereto.

It shall not be necessary for the consent of the Bondholders under this Section to approve the particular form of any proposed Supplemental Indenture or amendment to any document, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the Issuer and the Trustee of any Supplemental Indenture, or the execution of any amendment of any other document, pursuant to the provisions of this Section, the Trustee shall mail a notice (which shall be supplied to the Trustee by and at the expense of the Company) setting forth in general terms the substance of such Supplemental Indenture or amendment, to each Bondholder at the address contained in the bond register maintained by the Trustee. Any failure of the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture or amendment.

Section 9.03. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the provisions of this Article IX, this Indenture shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Issuer, the Trustee and all holders of Outstanding Bonds shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Indenture shall be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.04. Required and Permitted Opinions of Counsel. No Supplemental Indenture, amendment to the Financing Agreement or other action otherwise permitted by the provisions of Sections 9.01 or 9.02 hereof shall be effective unless the Trustee shall have received an opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture or amendment or such other action will not adversely affect the Tax-exempt status of interest on the Bonds. Subject to the provisions of Section 8.01, the Trustee may receive an Opinion of Counsel as conclusive evidence that any Supplemental Indenture executed pursuant to the provisions of this Article IX complies with the requirements of this Article IX, that the appropriate consents have been obtained and that such Supplemental Indenture has been duly authorized by the Issuer.

Section 9.05. Notation of Modification on Bonds; Preparation of New Bonds. Bonds authenticated and delivered after the execution of any Supplemental Indenture pursuant to the provisions of this Article IX may bear a notation, in form approved by the Trustee, as to any matter provided for in such Supplemental Indenture, and if such Supplemental Indenture shall so provide, new Bonds, so modified as to conform, in the opinion

of the Trustee and the Issuer, to any modification of this Indenture contained in any such Supplemental Indenture, may be prepared by the Issuer, authenticated by the Trustee and delivered without cost to the holders of the Bonds then Outstanding, upon surrender for cancellation of such Bonds in equal aggregate principal amounts.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Indenture. If the entire indebtedness on all Bonds Outstanding shall be paid and discharged in any one or more of the following ways:

(a) by the payment of the principal of (including redemption premium, if any) and interest on Bonds Outstanding, as and when the same become due and payable; or

(b) by the delivery to the Trustee, for cancellation by it, of all Bonds Outstanding;

and if all other sums payable hereunder by the Issuer shall be paid and discharged, then thereupon this Indenture shall cease, terminate and become null and void except only as provided in Section 10.02 hereof, and thereupon the Trustee shall, upon Written Request of the Issuer, and upon receipt by the Trustee of a Certificate of the Issuer and an Opinion of Counsel, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of this Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging this Indenture. The satisfaction and discharge of this Indenture shall be without prejudice to the rights of the Trustee to charge and be reimbursed by the Company for any expenditures which it may thereafter incur in connection herewith, as provided in the Agreement.

Any Bond or Authorized Denomination thereof shall be deemed to be paid within the meaning of this Indenture when (a) payment of the principal of and premium, if any, on such Bond or Authorized Denomination thereof, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided herein) either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for by irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment (1) moneys sufficient to make such payment and/or (2) Permitted Investments maturing as to principal and interest in such amount and at such time as will insure the availability of sufficient moneys (as verified by a nationally recognized certified public accountant) to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Trustee pertaining to any such deposit shall have been paid

or the payment thereof provided for to the satisfaction of the Trustee. At such times as a Bond or Authorized Denomination thereof shall be deemed to be paid hereunder, as aforesaid, such Bond or Authorized Denomination thereof shall no longer be secured by or entitled to the benefits of this Indenture, except for the purposes of any such payment from such moneys or Permitted Investments.

The Issuer or the Company may at any time surrender to the Trustee for cancellation by it any Bonds previously authenticated and delivered which the Issuer or the Company lawfully may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Section 10.02. Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities as provided in Section 10.01 in the necessary amount (as provided in Section 10.04) to pay or redeem Outstanding Bonds (whether upon or prior to their maturity, in accordance with Section 10.01 hereof, or on the redemption date, in accordance with Article IV hereof, of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for giving such notice, all liability of the Issuer and the Company in respect of Bonds shall cease, terminate and be completely discharged, except only that thereafter the holders thereof shall thereafter be entitled only to payment by the Issuer, and the Issuer shall remain liable for such payment, but only out of the money deposited with the Trustee as aforesaid for their payment, provided further, however, that the provisions of Section 10.03 shall apply in all events. Upon any such deposit of funds, unless the Bonds will mature or notice of redemption is to be given within ten (10) days after such deposit, the Trustee shall, within ten (10) days after such deposit, give notice, in such form as may be deemed appropriate by the Trustee, to the effect that such deposit has been made, with the effect set forth in this Section, such notice to be given by publication in a Qualified Newspaper and by Mail to the holders of the Bonds.

Section 10.03. Payment of Bonds after Discharge of Indenture. Notwithstanding any provisions of this Indenture, any moneys deposited with the Trustee or any paying agent in trust for the payment of the principal of, or interest or premium on, any Bonds remaining unclaimed for two (2) years after the principal of any or all the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in this Indenture), shall then be repaid to the Company upon its Written Request, and the holders of such Bonds shall thereafter be entitled to look only to the Company for payment thereof, and all liability of the Trustee or any paying agent with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to

the Company as aforesaid, the Trustee or paying agent, as the case may be, may (at the cost of the Company) first publish at least once in a Qualified Newspaper a notice, in such form as may be deemed appropriate by the Trustee or such paying agent, in respect of the Bonds so payable and not presented and in respect of the provisions relating to the repayment to the Company of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Company as aforesaid, the holders of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be unsecured creditors of the Company for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Company (without interest thereon).

Section 10.04. Deposit of Money or Securities with Trustee. Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Permitted Investments (not callable by the issuer thereof prior to maturity) the principal of and the interest on which when due will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that (i) the Company shall furnish to the Trustee an opinion of Bond Counsel to the effect that such deposit will not, in and of itself, adversely affect the Tax-exempt status of interest on the Bonds and (ii) the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Request of the Issuer) to apply such money to the payment of such principal or redemption price and interest with respect to such Bonds.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Successors of the Issuer. All the covenants, stipulations, promises and agreements in this Indenture contained, by or on behalf of the Issuer, shall bind and inure to the benefit of its successors and assigns, whether so expressed or not. If any of the powers or duties of the Issuer shall hereafter be transferred by any law of the State of Nevada, and if such transfer shall relate to any matter or thing permitted or required to be done under this Indenture by the Issuer, then the body or official of the State of Nevada who shall succeed to such powers or duties shall act and be obligated in the place and stead of the Issuer as provided in this Indenture.

Section 11.02. Limitation of Rights to Parties and Bondholders. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Issuer, the Trustee, the Company and the holders of the Bonds issued hereunder any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Issuer, the Trustee, the Company and the holders of the Bonds issued hereunder.

Section 11.03. Waiver of Notice. Whenever in this Indenture the giving of Notice by Mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 11.04. Destruction of Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee of any Bonds, the Trustee may, in lieu of such cancellation, destroy such Bonds, and, if requested in writing, deliver a certificate of such destruction to the Issuer.

Section 11.05. Separability of Invalid Provisions. In case any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, but this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

Section 11.06. Governing Law. This Indenture shall be governed by and construed in accordance with the applicable laws of the State of Nevada, except that the Trustee's obligations and

duties shall be governed by and construed in accordance with the laws of the State of New York.

Section 11.07. Notices. It shall be sufficient service of any notice, request, complaint, demand or other paper on the Issuer, the Trustee or the Company if the same shall be duly mailed by registered or certified mail, postage prepaid, addressed as follows:

To the Issuer: Clark County, Nevada
225 Bridger Avenue
Las Vegas, NV 89155
Attention: County Manager

To the Company: Southwest Gas Corporation
5241 Spring Mountain Road
P.O. Box 98510
Las Vegas, NV 89193-8510
Attention: Treasurer

To the Trustee: Harris Trust and Savings Bank
311 West Monroe Street, 12th Floor
Chicago, Illinois 60608
Attention: Indenture Trust Department

The Issuer, the Trustee and the Company may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. Unless specifically otherwise required by the context of this Indenture, any notices required to be given hereunder to the Trustee, the Issuer, the Company or the Trustee may be given by any form of electronic transmission capable of producing a written record. Each such party shall file with the Trustee information appropriate to receiving such form of electronic transmission. A duplicate copy of each notice, certificate or other communication given hereunder by the Issuer or the Trustee to the other shall also be given to the Company.

Section 11.08. Evidence of Rights of Bondholders. (a) Any request, consent or other instrument required by this Indenture to be signed and executed by Bondholders may be in any number of concurrent writings of substantially similar tenor and may be signed or executed by such Bondholders in person or by agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee, and of the Issuer if made in the manner provided in this Section.

(b) The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take

acknowledgments of deeds, certifying that the person signing such request, consent or other instrument or writing acknowledged to him the execution thereof.

(c) The ownership of Bonds shall be proved by the Bond register maintained by the Trustee pursuant to Section 2.04 hereof. The Trustee and the Issuer may conclusively assume that such ownership continues until written notice to the contrary is served upon the Trustee. The fact and the date of execution of any request, consent or other instrument and the amount and distinguishing numbers of Bonds held by the person so executing such request, consent or other instrument may also be proved in any other manner which the Trustee may deem sufficient. The Trustee may nevertheless, in its discretion, require further proof in cases where it may deem further proof desirable.

Any request, consent or vote of the holder of any Bond shall bind every future holder of the same Bond and the holder of any Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Issuer in pursuance of such request, consent or vote.

(d) In determining whether the holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned by the Issuer, by the Company or by any other direct or indirect obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Issuer, the Company, or any other direct or indirect obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, provided that, for the purpose of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only Bonds which the Trustee knows to be so owned shall be disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this subsection (d) if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Issuer, the Company or any other direct or indirect obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

(e) In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Bondholders upon such notice and in accordance with such rules and regulations as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

Section 11.09. Waiver of Personal Liability. No member, officer, agent or employee of the Issuer, and no officer,

official, agent or employee of the State of Nevada or any department, board or agency of the foregoing shall be individually or personally liable for the payment of the principal of or premium or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

Section 11.10. Publication of Notices. Any publication of notice to be made under the provisions of this Indenture may be made in each instance upon any Business Day.

Section 11.11. Execution in Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Issuer and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 11.12. Business Days. If any date specified herein shall not be a Business Day, any action required on such date may be made on the next succeeding Business Day with the same effect as though made on such date and no interest shall accrue for the period after such date.

IN WITNESS WHEREOF, Clark County, Nevada has caused this Indenture to be executed by its Chairman, Board of County Commissioners, and Harris Trust and Savings Bank has caused this Indenture to be executed in its behalf by its duly authorized signatory, all as of the day and year first above written.

CLARK COUNTY, NEVADA

By ____________________________
Chairman, Board of
County Commissioners

Attest:

____
County Clerk

HARRIS TRUST AND SAVINGS BANK,
as Trustee

By ____________________________
Title:

EXHIBIT A

[FORM OF BOND]

No. A-__ $

CLARK COUNTY, NEVADA
INDUSTRIAL DEVELOPMENT REVENUE BONDS
(SOUTHWEST GAS CORPORATION)
1993 SERIES A

Interest Rate	Maturity Date	Dated Date	CUSIP
	December 1, 2033		XXXXX

Registered Owner:

Principal Amount: DOLLARS

CLARK COUNTY, NEVADA, a political subdivision of the State of Nevada (the "Issuer"), for value received, hereby promises to pay (but only out of Revenues as hereinafter provided) to the registered owner identified above or registered assigns, on the maturity date set forth above, the principal sum set forth above and to pay (but only out of the source hereinafter provided) interest at the interest rate per annum set forth above on the balance of said principal amount from time to time remaining unpaid from and including the date hereof until payment of said principal amount has been made or duly provided for the principal of and premium, if any, on this Bond being payable at final maturity or redemption in lawful money of the United States of America at the principal corporate trust office of ___________________________, or its successor in trust, as trustee (the "Trustee"), which initially is at _________________, _________________, _________________, Attention: _______________. Interest payments on this Bond shall be made by the Trustee, or its successors and assigns, as paying agent with respect to the Bonds (as defined in the Indenture), on June 1 and December 1 in each year, commencing June 1, 1994, and at final maturity (an "Interest Payment Date") to the registered owner hereof as of the close of business at the principal office of the Trustee on the fifteenth day of the calendar month preceding any Interest Payment Date (the "Record Date"), and shall be paid by check or draft mailed on the Interest Payment Date to such registered owner at its address as it appears on the registration books of the Issuer maintained by the Trustee, or its successors and assigns, or at such other address as is furnished in writing by such registered owner to the Trustee not later than the Record Date; provided that the Trustee will, at the request of any registered owner of $1,000,000 or more in aggregate principal amount of Bonds, make payments of interest on such Bonds by wire transfer in immediately available funds to the account designated by such owner to the Trustee in writing at least two (2) Business

Days before the Record Date for such payments, any such designation to remain in effect until withdrawn.

No member or officer of the Issuer, nor any person executing this Bond, shall in any event be subject to any personal liability or accountability by reason of the issuance of the Bonds.

The Bonds are authorized to be issued pursuant to the County Economic Development Revenue Bond Law, Sections 244A.669 to 244A.763, inclusive, of the Nevada Revised Statutes, as amended (herein called the "Act"). The Bonds are special, limited obligations of the Issuer and, as and to the extent set forth in the Indenture, are payable solely from, and secured by a pledge of and lien on, the Revenues (as that term is defined in the Indenture). Proceeds from the sale of the Bonds are to be loaned by the Issuer to Southwest Gas Corporation (the "Company") under the terms of a Financing Agreement, dated as of December 1, 1993 (the "Agreement"), between the Issuer and the Company. The Bonds are all issued under and secured by and entitled to the benefits of the Indenture, including the security of a pledge and assignment of certain revenues and receipts derived by the Issuer pursuant to the Agreement, and all receipts of the Trustee credited under the provisions of the Indenture against such payments, and from any other moneys held by the Trustee under the Indenture for such purpose, and there shall be no other recourse against the Issuer or any property now or hereafter owned by it.

THE BONDS SHALL BE SPECIAL, LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE REVENUES OF THE ISSUER PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS SHALL NEVER CONSTITUTE THE DEBT OR INDEBTEDNESS OF THE ISSUER OR THE STATE OF NEVADA (OR ANY POLITICAL SUBDIVISION THEREOF) WITHIN THE MEANING OF ANY PROVISION OR LIMITATION OF THE CONSTITUTION OR STATUTES OF THE STATE OF NEVADA, AND SHALL NOT CONSTITUTE NOR GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

This Bond is one of a duly authorized issue of bonds of the Issuer designated as the "Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation) 1993 Series A" (the "Bonds"), limited in aggregate principal amount as provided in, and issued under and secured by, an Indenture of Trust, dated as of December 1, 1993 (the "Indenture"), between the Issuer and the Trustee. Reference is hereby made to the Indenture and all indentures supplemental thereto for a description of the rights thereunder of the registered owners of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the Issuer thereunder, to all of the provisions of which Indenture the holder of this Bond, by acceptance hereof, assents and agrees.

The Indenture contains provisions permitting the Issuer and the Trustee, with the consent of the holders of not less than

60% in aggregate principal amount of Bonds at the time Outstanding, evidenced as in the Indenture provided, to execute Supplemental Indentures adding any provisions to, or changing in any manner, or eliminating any of the provisions of, the Indenture; provided, however, that no such Supplemental Indenture shall (1) extend the fixed maturity of this Bond or reduce the rate of interest hereon or extend the time of payment of interest, or reduce the amount of the principal hereof, or reduce any premium payable on the redemption hereof, without the consent of the holder hereof, or (2) reduce the aforesaid percentage of holders of Bonds whose consent is required for the execution of such Supplemental Indentures, or extend the time of payment, or permit the creation of any lien on the Trust Estate prior to or on a parity with the lien of the Indenture, or permit the creation of any preference of any Bondholder over any other Bondholder or deprive the holders of the Bonds of the lien created by the Indenture upon the Revenues, without the consent of the holders of all Bonds then Outstanding. The Indenture also contains provisions permitting the Issuer and the Trustee, without the consent of any holders of the Bonds, to execute Supplemental Indentures for certain purposes specified in the Indenture.

The Bonds are issuable as fully registered bonds without coupons in denominations of $5,000 or any integral multiple thereof (herein "Authorized Denominations"). Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, Bonds may be exchanged at the principal office of the Trustee for a like aggregate principal amount of Bonds of like tenor, of other Authorized Denominations.

This Bond is transferable by the registered owner hereof, in person, or by its attorney duly authorized in writing, at the principal corporate trust office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a new fully registered Bond or Bonds of like tenor, in an Authorized Denomination, for the same aggregate principal amount, will be issued to the transferee in exchange herefor. No transfer of Bonds shall be required to be made (a) during the period commencing seven (7) Business Days preceding the giving of notice of redemption and ending on the date such notice is given, or (b) after any Record Date and prior to the related Interest Payment Date.

The Bonds are subject to redemption at any time at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the redemption date upon receipt by the Trustee of a written notice from the Company stating it intends to exercise its option to prepay the payments due under the Agreement and thereby effect the redemption of the Bonds (i) in whole upon the occurrence of one or more extraordinary events as described in the Indenture, or (ii) in whole or in part upon certain tax events of the Company (in which case the

redemption price would also include a premium of 3% of the principal amount of the Bonds so called for redemption), all as set forth in the Indenture.

On and after December 1, 2003, the Bonds are subject to redemption in whole or in part on any date, at the option of the Issuer on the direction of the Company, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued interest, if any, to the redemption date:

Redemption Dates (inclusive)	Redemption Prices
December 1, 2003, through November 30, 2004	102%
December 1, 2004, through November 30, 2005	101%
December 1, 2005 and thereafter	100%

The Bonds are subject to mandatory redemption prior to maturity, at any time at a redemption price equal to the principal amount thereof plus accrued interest thereon to the redemption date (i) in whole, or in certain circumstances in part, upon the occurrence of a Determination of Taxability, as defined in the Indenture, and (ii) in part after the Completion Date, from excess proceeds. The Bonds shall be redeemed as provided in this paragraph in part in the case of a Determination of Taxability if, in the opinion of nationally recognized bond counsel delivered to the Trustee, the redemption of a specified portion of the Outstanding Bonds would have the result that interest payable on such Bonds remaining Outstanding after such redemption would not be includable for federal income tax purposes in the gross income of any registered owner of any Bond (other than a registered owner who is a "substantial user" of the Project or the Big Bear Lake Project (as defined in the Indenture) or a "related person" within the meaning of Section 147(a) of the Code). Such partial redemption shall be in such amount as Bond Counsel in such opinion shall have determined is necessary to accomplish such result.

If less than all of the Bonds are to be redeemed, the particular Bonds to be redeemed shall be selected as provided in the Indenture.

Notice of any optional or mandatory redemption shall be given by the Trustee by mail not less than 30 days nor more than 60 days prior to the redemption date to the Issuer and the registered owners of each Bond at the address shown on the registration books of the Trustee.

No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement in the Indenture contained, against any past, present or future member, director, officer, employee or agent of the Issuer, or through the Issuer, or any successor to the Issuer, under any rule of law or equity, statute or constitution or by

the enforcement of any assessment or penalty or otherwise, and all such liability of any such member, director, officer, employee or agent as such is hereby expressly waived and released as a condition of and in consideration for the execution of the Indenture and the issuance of any of the Bonds.

The holder of this Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any Event of Default (as defined in the Indenture) under the Indenture, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Indenture. If an Event of Default occurs and is continuing, the principal of all Bonds then Outstanding issued under the Indenture may become due and payable upon the conditions and in the manner and with the effect provided in the Indenture.

The Issuer, the Trustee and any agent of the Issuer or the Trustee may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Bond be overdue, and the Issuer, the Trustee, or any such agent shall not be affected by notice to the contrary.

The Indenture prescribes the manner in which it may be discharged and after which the Bonds shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of registration and exchange of Bonds and of payment of the principal of and redemption premium, if any, and interest on the Bonds as the same become due and payable, including a provision that under certain circumstances the Bonds shall be deemed to be paid if certain securities, as defined therein, maturing as to principal and interest in such amounts and at such times as to insure the availability of sufficient moneys to pay the principal of, redemption premium, if any, and interest on the Bonds and all necessary and proper fees, compensation and expenses of the Trustee shall have been deposited with the Trustee.

It is hereby certified that all of the conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the Constitution and statutes of the State of Nevada and that the amount of this Bond, together with all other indebtedness of the Issuer, does not exceed any limit prescribed by the Constitution or statutes of the State of Nevada.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

IN WITNESS WHEREOF, Clark County, Nevada has caused this Bond to be executed with the facsimile signature of its Chairman of its Board of County Commissioners and countersigned and executed with the facsimile signature of its Treasurer and imprinted or reproduced hereon a facsimile of its official seal and attested with the facsimile signature of its County Clerk.

CLARK COUNTY, NEVADA

BY: ____________________________
CHAIRMAN, BOARD OF COUNTY COMMISSIONERS

COUNTERSIGNED:

BY: ____________________________
TREASURER

(SEAL)

ATTEST:

____
COUNTY CLERK

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture of Trust.

Date of Authentication: _______________

HARRIS TRUST AND SAVINGS BANK,
as Trustee

By ____________________________
Authorized Officer

[ABBREVIATIONS]

The following abbreviations, when used in the inscription on the face of the within bond and in the assignment below, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM-- as tenants in common

TEN ENT-- as tenants by the entireties

JT TEN-- as joint tenants with right of survivorship and not as tenants in common

Additional abbreviations may also be used
though not in the above list.

UNIF GIFT/TRAN MIN ACT--_______ (Cust) Custodian __________ (Minor)
Under Uniform Gifts/Transfer to Minors Act

____
(State)

[FORM OF ASSIGNMENT]

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto ____
____

(Please Print or Typewrite Name and Address of Assignee)

(Insert Social Security or other Identifying Number of Assignee)
____ the within Bond and hereby irrevocably constitutes and appoints ____ attorney to register the transfer of said Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: __________________________
Signature: ______________________

SIGNATURE GUARANTEED:

____
NOTICE: Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.

EXHIBIT 4.11

INDENTURE OF TRUST

Between

CITY OF BIG BEAR LAKE

And

HARRIS TRUST AND SAVINGS BANK,
as Trustee

Dated as of December 1, 1993

Relating to

$50,000,000
City of Big Bear Lake
Industrial Development Revenue Bonds
(Southwest Gas Corporation Project)
1993 Series A

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THIS INDENTURE OF TRUST, made and entered into as of December 1, 1993, by and between the CITY OF BIG BEAR LAKE, a municipal corporation and charter city duly organized and existing under the laws and Constitution of the State of California (herein called the "City"), and HARRIS TRUST AND SAVINGS BANK, a banking corporation organized and existing under the laws of the State of Illinois, with corporate trust offices in Chicago, Illinois, and being qualified to accept and administer the trusts hereby created (herein called the "Trustee"),

W I T N E S S E T H:

WHEREAS, the City has enacted Ordinance No. 84-106, adopted May 9, 1984, as amended from time to time (the "Law"), authorizing the City to issue its revenue bonds to provide funds for the furtherance and accomplishment of the purposes hereinafter set forth; and

WHEREAS, Southwest Gas Corporation, a California corporation (the "Borrower"), has duly submitted a financing application requesting that the City issue revenue bonds to finance certain facilities for the local furnishing of gas as more fully described in Exhibit A to the Project Agreement (the "Project"); and

WHEREAS, the City, after due investigation and deliberation, has determined that financing the Project is authorized by the Law and has taken all necessary action approving such application and authorizing the issuance of its industrial development revenue bonds as provided herein, in an aggregate principal amount not to exceed $50,000,000 (as more fully defined in Section 1.01, the "Bonds"), in order to finance the Project; and

WHEREAS, the City has duly entered into a project agreement (the "Agreement") with the Borrower specifying the terms and conditions of the financing of the Project by the Borrower, the application of the proceeds of the Bonds for such purpose and the repayment by the Borrower of the loan made or deemed to be made to the Borrower with the proceeds of the Bonds; and

WHEREAS, in order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof and of the interest and premium, if any, thereon, the City has authorized the execution and delivery of this Indenture; and

WHEREAS, the Bonds issued under this Indenture will be secured by a pledge and assignment to the Trustee of the City's

rights under the Agreement and by certain other security in accordance with the terms of this Indenture; and

WHEREAS, all acts and proceedings required by law necessary to make the Bonds when executed by the City, authenticated and delivered by the Trustee and duly issued, the legal, valid and binding special, limited obligations of the City, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth, in accordance with its terms, have been done and taken; and the execution and delivery of this Indenture have been in all respects duly authorized;

NOW, THEREFORE, for and in consideration of these premises and the mutual covenants herein contained, of the acceptance by the Trustee of the trusts hereby created, of the purchase and acceptance of the Bonds by the holders (as hereinafter defined) thereof and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, in order to secure the payment of the principal of and premium, if any, and interest on the Bonds at any time outstanding (as hereinafter defined) under this Indenture according to their tenor and effect, and the performance and observance by the City of all the covenants and conditions expressed or implied herein and contained in the Bonds, the City does hereby grant, bargain, sell, convey, mortgage, pledge, assign, create and grant a security interest in and confirm unto the Trustee, its successors in trust and their assigns forever, the Trust Estate (as hereinafter defined);

TO HAVE AND TO HOLD all the same with all privileges and appurtenances hereby conveyed and assigned or agreed or intended so to be, to the Trustee, its successors in trust and their assigns forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit and security of all holders of the Bonds issued under and secured by this Indenture without preference, priority or distinction as to lien of any Bonds over any other Bonds;

PROVIDED, HOWEVER, that if, after the right, title and interest of the Trustee in and to the Trust Estate shall have ceased, terminated and become void in accordance with Article X hereof, and the principal of and premium, if any, and interest on the Bonds shall have been paid to the holders thereof or sufficient funds for such payment shall have been set aside in accordance with Article X hereof, then and in that case these presents and the estate and rights hereby granted shall cease, terminate and be void, and thereupon the Trustee shall cancel and discharge this Indenture and execute and deliver to the City and the Borrower such instruments in writing as shall be requisite to evidence the discharge hereof; otherwise this Indenture to be and remain in full force and effect.

THIS INDENTURE OF TRUST FURTHER WITNESSETH, and it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated and delivered, and the Trust Estate and the other estate and rights hereby granted are to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the City has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the respective holders, from time to time, of the Bonds, as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 shall, for all purposes of this Indenture and of the Agreement and of any indenture supplemental hereto or agreement supplemental thereto, have the meanings herein specified, as follows:

"Act of Bankruptcy" of the Borrower means any of the following with respect to the Borrower: (a) the commencement by the Borrower of a voluntary case under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws, or (b) the filing of a petition with a court having jurisdiction over the Borrower to commence an involuntary case against the Borrower under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws, or (c) the Borrower shall admit in writing its inability to pay its debts generally as they become due, or (d) a receiver, trustee or liquidator of the Borrower shall be appointed in any proceeding brought against the Borrower, or (e) assignment by the Borrower for the benefit of its creditors, or (f) the entry by the Borrower into an agreement of composition with its creditors.

"Agreement" means the Project Agreement, of even date herewith, between the City and the Borrower and relating to the loan of the proceeds of the Bonds, as originally executed or as it may from time to time be supplemented or amended.

"Authorized Borrower Representative" means any person who at the time and from time to time may be designated, by written certificate furnished to the City and the Trustee, as the person authorized to act on behalf of the Borrower. Such certificate shall contain the specimen signature of such person, shall be signed on behalf of the Borrower by any one of its President and Chief Executive Officer, Senior Vice President and Chief Financial Officer or Treasurer and shall designate an alternate or alternates.

"Authorized City Representative" means the City Manager of the City, the Assistant City Manager of the City or other official of the City designated by the City Manager or the Assistant City Manager.

"Authorized Denomination" means (a) with respect to Bonds during any Term Rate Period, $5,000 or any integral multiple thereof; (b) with respect to Bonds during any Daily Rate Period and any Weekly Rate Period, $100,000 or any integral multiple thereof; and (c) with respect to Bonds during any Variable Term Rate Period, $100,000 or any integral multiple of $5,000 in excess of $100,000.

"Available Amounts" means (a) funds received by the Trustee pursuant to any Credit Facility; (b) moneys which have been continuously on deposit with the Trustee (i) held in any separate and segregated fund, account or subaccount established hereunder in which no other moneys which are not Available Amounts are held, and (ii) which have so been on deposit with the Trustee for at least 370 consecutive days from their receipt by the Trustee and not commingled with any moneys so held for less than said period and during and prior to which period no Act of Bankruptcy of the Borrower has occurred; (c) proceeds from the sale of the Bonds received contemporaneously with the issuance and sale of such Bonds; (d) any other moneys if there is delivered to the Trustee at the time such moneys are deposited with the Trustee an opinion (which may assume that no owner of Bonds is an "insider" within the meaning of the Bankruptcy Code) of bankruptcy counsel to the effect that the use of such moneys to pay amounts due on the Bonds would not be recoverable from the Bondholders pursuant to Section 550 of the Bankruptcy Code as avoidable preferential payments under Section 547 of the Bankruptcy Code in the event of the occurrence of an Act of Bankruptcy; (e) proceeds of the investment of funds qualifying as Available Amounts under the foregoing clauses; or (f) at any time except when there is a Credit Facility in effect in the form of a letter of credit, any other moneys from whatever source derived.

"Bond Counsel" means any attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States, but shall not include counsel for the Borrower or any Credit Provider.

"Bond Fund" means the City of Big Bear Lake Industrial Development Revenue Bonds (Southwest Gas Corporation Project) 1993 Series A Bond Fund established pursuant to Section 5.02 hereof.

"Bond Year" means the one-year period commencing on the Issue Date and ending the day preceding the first anniversary of the Issue Date and each one-year period commencing on successive

anniversaries of the Issue Date, the last of which ends on the date the last of the Bonds is retired.

"Bonds" means the bonds designated as provided in Section 2.01(a), authorized and issued hereunder in an aggregate principal amount not to exceed $50,000,000.

"Borrower" means (i) Southwest Gas Corporation, a corporation organized under the laws of the State of California, and its successors and assigns, and (ii) any surviving, resulting or transferee corporation as provided in Section 5.2 of the Agreement.

"Business Day" means a day on which banks located in the cities in which the Principal Offices of the Trustee, the Registrar, the Paying Agent, the Tender Agent, the Remarketing Agent and any Credit Provider are located are not required or authorized to be closed and on which The New York Stock Exchange is not closed, and, in the case of any action to be taken by the Borrower, which is not a legal holiday in Las Vegas, Nevada.

"Certificate of the City" means a certificate signed by an Authorized City Representative. If and to the extent required by the provisions of Section 1.04 hereof, each Certificate of the City shall include the statements provided for in Section 1.04 hereof.

"Certified Resolution" means a copy of a resolution or ordinance of the City certified by the City Clerk of the City to have been duly adopted by the City and to be in full force and effect on the date of such certification.

"City" means the City of Big Bear Lake, California.

"Clark County Project" means the facilities financed with proceeds of the Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation) 1993 Series A issued by Clark County, Nevada for the benefit of the Borrower.

"Code" means the Internal Revenue Code of 1986.

"Completion Date" means the date of completion of the Project, as that date shall be certified as provided in Section 3.4 of the Agreement.

"Construction Fund" means the City of Big Bear Lake Industrial Development Revenue Bonds (Southwest Gas Corporation Project) 1993 Series A Construction Fund established pursuant to Section 3.03 hereof.

"Construction Period" means the period during which interest for any portion of the Project may be capitalized for federal income tax purposes.

"Cost of the Project" means the sum of the items, or any such item, authorized to be paid from the Construction Fund pursuant to the provisions of Section 3.3 of the Agreement.

"Credit Agreement" means the Letter of Credit and Reimbursement Agreement, of even date herewith, between the Borrower and the initial Credit Provider, as originally executed or as it may from time to time be replaced, supplemented or amended in accordance with the provisions thereof and Article IX hereof, providing for the issuance of the initial Credit Facility, and any subsequent agreement pursuant to which a substitute Credit Facility is provided.

"Credit Facility" means any first mortgage bonds of the Borrower, letter of credit, guarantee, standby purchase agreement, bond insurance or other support arrangement or security, if any, provided by the Borrower, pursuant to Section 4.6 of the Agreement and Section 5.07 hereof.

"Credit Provider" means Union Bank of Switzerland, acting through its Los Angeles Branch, as issuer of the Letter of Credit, or any issuer or other provider of a substitute Credit Facility as permitted under Section 4.6 of the Agreement and Section 5.07 hereof, and the respective successors and assigns of the business thereof and any surviving, resulting or transferee entity with or into which it may be consolidated or merged or to which it may transfer all or substantially all of its banking business.

"Credit Provider Bonds" means any Bonds purchased with a drawing under a Credit Facility pursuant to Section 5.07(b)(iv) hereof for so long as such Bonds are registered in the name of the applicable Credit Provider or its nominee or such other names as the Credit Provider shall direct or are held by the Tender Agent for the account of the Credit Provider or its nominee.

"Daily Rate" means the variable interest rate on any Bonds established in accordance with Section 2.01(c)(ii) hereof.

"Daily Rate Period" means each period during which a Daily Rate is in effect.

"Debt Service" shall have the meaning ascribed to such term by Section 148(d)(3)(D) of the Code.

"Determination of Taxability" means a determination that interest payable on any Bond is includable in the gross income for federal income tax purposes of the holder of such Bond (other than a holder who is a "substantial user" of the Project or the Clark County Project or a "related person" within the meaning of Section 147(a) of the Code). Such determination shall be deemed to have been made upon the date on which, due to the untruth or inaccuracy of any representation or warranty made by the Borrower in the Agreement, or in connection with the offer

and sale of the Bonds, or the breach of any covenant or warranty of the Borrower contained in the Agreement, interest on the Bonds, or any of them, is determined to be includable in the gross income for federal income tax purposes of the owners thereof (other than an owner who is a "substantial user" of the Project or the Clark County Project or a "related person" within the meaning of Section 147(a) of the Code) by a final administrative determination of the Internal Revenue Service or judicial decision of a court of competent jurisdiction in a proceeding of which the Borrower received notice and was afforded an opportunity to participate to the full extent permitted by law. A determination or decision will not be considered final for purposes of the preceding sentence unless (A) the holder or holders of the Bonds involved in the proceeding in which the issue is raised (i) shall have given the Borrower and the Trustee prompt notice of the commencement thereof, and (ii) shall have offered the Borrower the opportunity to control the proceeding to the extent that the Borrower is permitted by law to do so; provided the Borrower agrees to pay all expenses in connection therewith and to indemnify such holder or holders against all liability for such expenses (except that any such holder may engage separate counsel, and the Borrower shall not be liable for the fees or expenses of such counsel); and (B) such proceeding shall not be subject to a further right of appeal or shall not have been timely appealed.

"DTC" means The Depository Trust Company and its successors and assigns.

"DTC Participants" means those broker-dealers, banks and other financial institutions from time to time for which DTC holds Bonds as securities depository.

"Event of Default" as used with respect to this Indenture has the meaning specified in Section 7.01 hereof, and as used with respect to the Agreement has the meaning specified in Section 6.1 thereof.

"Government Obligations" means bonds, notes, certificates of indebtedness, treasury bills or other securities constituting direct obligations of, or obligations the full and timely payment of which is guaranteed by, the United States of America, or securities evidencing ownership interests in such obligations or in specified portions thereof (which may consist of specific portions of the principal of or interest on such obligations).

The term "holder" or "Bondholder" means the registered owner of any Bond; provided that, at any time the Bonds are held in book-entry only form as provided in Section 2.01(h) hereof, such terms shall also mean any beneficial owner of Bonds for purposes of tendering Bonds for purchase pursuant to Section 2.01(d), but not for purposes of receiving payment thereon or notices with respect thereto.

"Indenture" means this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any supplemental indenture entered into pursuant to the provisions hereof.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; the Municipal Securities Rulemaking Board, CDI Pilot, 1640 King Street, Suite 300, Alexandria, Virginia 22314; and Standard and Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or no such services, as the City may designate in a Certificate of the City delivered to the Trustee.

"Initial Rate Period" for the Bonds means the applicable Rate Period for the Bonds on the Issue Date as specified in Section 2.01(c)(i) hereof.

"Interest Payment Date" means (i) with respect to any Daily or Weekly Rate Period, the first Business Day of each calendar month, (ii) with respect to any Term Rate Period, the first day of the sixth month following the commencement of the Term Rate Period and the first day of each sixth month period thereafter, (iii) with respect to any Variable Term Segment, the Business Day next succeeding the last day of such Variable Term Segment, and (iv) with respect to any Rate Period the Business Day next succeeding the last day thereof.

"Investment Securities" means any securities or other evidences of indebtedness or demand deposits which are lawful investments for trust funds similar to those created hereby in the State of California, a schedule of which shall be provided by the Borrower to the Trustee from time to time.

"Issue Date" means December 15, 1993, the date of issuance and delivery of the Bonds.

"Law" means Ordinance No. 84-106 of the City, adopted May 9, 1984, as amended and supplemented.

"Letter of Credit" means the irrevocable direct-pay letter of credit provided by Union Bank of Switzerland, acting through its Los Angeles Branch, as the initial Credit Facility pursuant to Sections 4.2 and 4.6 of the Agreement.

"Maximum Interest Rate" means (a) while a Credit Facility is in effect, the rate of interest specified in the

Credit Facility which is used to determine the amount available under such Credit Facility for payment of interest due and payable to holders of Bonds (which, in the case of the Letter of Credit, is 14% per annum) and (b) at all other times, with respect to Bonds in a Daily Rate Period, 14% per annum, with respect to Bonds in a Weekly Rate Period, 14% per annum, with respect to Bonds in a Term Rate Period, 14% per annum, and with respect to Bonds in a Variable Term Rate Period, 14% per annum.

"Notice by Mail" or "notice" of any action or condition "by Mail" shall mean a written notice meeting the requirements of this Indenture mailed by first-class mail to the holders of specified Bonds, at the addresses shown on the registration books maintained pursuant to Section 2.04 hereof.

"Opinion of Counsel" means a written opinion of counsel (who may not be counsel for the Borrower) acceptable to the Trustee and the Borrower. If and to the extent required by the provisions of Section 1.04, each Opinion of Counsel shall include the statements provided for in Section 1.04.

The term "outstanding," when used as of any particular time with reference to Bonds (subject to the provisions of Section 11.06(e)), means all Bonds theretofore authenticated and delivered by the Registrar under this Indenture except:

(a) Bonds theretofore cancelled by the Registrar or surrendered to the Registrar for cancellation;

(b) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Registrar pursuant to the terms of Section 2.06; and

(c) Bonds with respect to which the liability of the City and the Borrower have been discharged to the extent provided in, and pursuant to the requirements of, Section 10.02.

"Paying Agent" means any paying agent appointed as provided in Section 6.03 hereof, or any successor thereto.

The term "person" means an individual, a corporation, a partnership, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

"Principal Office" (i) of the Registrar or the Paying Agent means the office thereof designated in writing by the Registrar or the Paying Agent, as the case may be, to the City, the Trustee, the Credit Provider and the Borrower, which as to both initially shall be the Principal Office of the Trustee; (ii) of the Trustee means the principal corporate trust office of the Trustee initially located in Los Angeles, California; (iii) of the Remarketing Agent means the office thereof designated in writing to the City, the Trustee, the Credit

Provider and the Borrower; (iv) of the Tender Agent means the principal corporate trust office of the Tender Agent designated in writing to the City, the Trustee, the Credit Provider and the Borrower; and (v) of the Credit Provider means its office located at such address as such Credit Provider shall designate in writing to the City, the Trustee and the Borrower.

"Project" means those facilities, including real property, structures, buildings, fixtures or equipment, described in Exhibit A to the Agreement, which facilities are financed, in whole or in part, from the proceeds of the sale of the Bonds, and any real property, structures, buildings, fixtures or equipment acquired in substitution for, as a renewal or replacement of, or a modification or improvement to, all or any part of the facilities described in said Exhibit A.

"Purchase Date" means any date on which any Bond is required to be purchased pursuant to Section 2.01(d) or (e) hereof.

"Qualified Newspaper" shall include The Wall Street Journal or The Bond Buyer or any other newspaper or journal containing financial news, printed in the English language and customarily published on each business day, of general circulation in New York, New York, and selected by the Borrower with the approval of the Trustee.

"Rate Period" means any Daily Rate Period, Weekly Rate Period, Variable Term Rate Period or Term Rate Period.

"Rating Agency" means Moody's Investors Service and Standard & Poor's Ratings Group, or in the event that Moody's Investors Service or Standard & Poor's Ratings Group no longer maintains a rating on the Bonds, any other nationally recognized rating agency then maintaining a rating on the Bonds.

"Rebate Fund" means the Rebate Fund established and maintained pursuant to Section 5.08 of the Indenture of Trust, dated as of December 1, 1993, by and between Clark County, Nevada and Harris Trust and Savings Bank, or its successors and assigns as trustee for the Clark County Bonds.

"Record Date" means (a) with respect to any Interest Payment Date in respect of any Daily Rate Period, Weekly Rate Period or Variable Term Segment, the Business Day next preceding such Interest Payment Date; and (b) with respect to any Interest Payment Date in respect of any Term Rate Period, the fifteenth day of the month preceding such Interest Payment Date.

"Registrar" means any registrar appointed as provided in Section 8.12 hereof, or any successor thereto.

"Reimbursement Rate" means the per annum interest rate specified in the applicable Credit Agreement as the rate of

interest then in effect with respect to, and to be borne by, any reimbursement obligation of the Borrower thereunder to the Credit Provider.

"Remarketing Agent" means the Remarketing Agent for the Bonds selected by the Borrower pursuant to Section 5.8(c) of the Agreement.

"Remarketing Agreement" means any agreement which meets the requirements of Section 5.8(d) of the Agreement.

"Repayment Installment" means any amount that the Borrower is required to pay directly to the Trustee pursuant to Section 4.2(a) of the Agreement as a repayment of the loan made by the City under the Agreement, which amount is determined in accordance with Section 4.2(a) thereof.

"Responsible Officer" of the Trustee means and includes the chairman of the board of directors, the president, every vice president and every assistant vice president.

"Revenues" means all rents, receipts, installment payments and other income derived by the City or the Trustee under the Agreement, any Credit Facility, or otherwise in respect of the financing of the Project as contemplated by the Agreement, and any income or revenue derived from the investment of any money in any fund or account established pursuant to this Indenture, including all Repayment Installments and any other payments made by the Borrower pursuant to the Agreement; but such term shall not include payments to the City or the Trustee pursuant to Sections 4.2(b), 4.2(c), 5.6, 6.3, 8.2 and 8.3 of the Agreement.

"Securities Depositories" means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax-(215) 496-5058; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as the City may designate in a Certificate of the City delivered to the Trustee.

The term "supplemental indenture" or "indenture supplemental hereto" means any indenture hereafter duly authorized and entered into between the City and the Trustee in accordance with the provisions of this Indenture.

"Tax Certificate" means the Tax Certificate and Agreement, dated as of the Issue Date, by and between the City and the Borrower, as the same may be amended from time to time.

"Tax-Exempt" means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

"Tender Agent" means the tender agent for the Bonds selected by the Borrower and meeting the requirements of Section 5.8(b) of the Agreement.

"Tender Agreement" means any agreement that meets the requirements of Section 5.8(b) of the Agreement.

"Term Rate" means a non-variable interest rate on the Bonds established in accordance with Section 2.01(c)(iv) hereof.

"Term Rate Period" means each period during which a Term Rate is in effect.

"Trust Estate" means (i) the proceeds of the Bonds; (ii) all Revenues; (iii) all amounts (including money and securities) held in any funds or accounts hereunder; (iv) the Agreement and the rights and privileges of the City thereunder which are assigned to the Trustee pursuant to Section 5.05 hereof; and (v) any other property rights, money, securities or other assets pledged or assigned by the City to the Trustee pursuant hereto.

"Trustee" means Harris Trust and Savings Bank, a state banking corporation organized and existing under the laws of the State of Illinois, or any successor trustee appointed pursuant to Section 8.08 hereof.

"Variable Term Rate" means, with respect to any Bond, the non-variable rate associated with such Bond established in accordance with Section 2.01(c)(v) hereof.

"Variable Term Rate Period" means each period comprised of Variable Term Segments during which Variable Term Rates are in effect.

"Variable Term Segment" means, with respect to each Bond bearing interest at a Variable Term Rate, the period established in accordance with Section 2.01(c)(v) hereof.

"Weekly Rate" means the variable interest rate on the Bonds established in accordance with Section 2.01(c)(iii) hereof.

"Weekly Rate Period" means each period during which a Weekly Rate is in effect.

"Written Consent of the City," "Written Order of the City," "Written Request of the City" and "Written Requisition of the City" mean, respectively, a written consent, order, request or requisition signed by or on behalf of the City by an Authorized City Representative.

"Yield" shall have the meaning ascribed to such term by Section 148(h) of the Code.

Section 1.02. Number and Gender. The singular form of any word used herein, including the terms defined in Section 1.01, shall include the plural, and vice versa. The use herein of a word of any gender shall include all genders.

Section 1.03. Articles, Sections, Etc. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture as originally executed; and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Indenture.

Section 1.04. Content of Certificates and Opinions. Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture or the Agreement (except for the certificate of destroyed Bonds provided for herein) shall include (a) a statement that the person or persons making or giving such certificate or opinion have read such covenant or condition and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate or opinion made or given by an officer of the City or the Borrower may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should have known that the same were erroneous. Any such certificate or opinion made or given by counsel may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the City or the Borrower),

upon the certificate or opinion of or representations by an officer of the City or the Borrower, as applicable, unless such counsel knows that the certificate or opinion or representations with respect to the matters upon which his opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should have known that the same were erroneous.

ARTICLE II

THE BONDS

Section 2.01. Authorization and Terms of Bonds.

(a) Authorization. Bonds designated as "City of Big Bear Lake Industrial Development Revenue Bonds (Southwest Gas Corporation Project) 1993 Series A" may be issued under this Indenture. The aggregate principal amount of Bonds which may be issued and outstanding under this Indenture shall not exceed fifty million dollars ($50,000,000), exclusive of Bonds executed and authenticated as provided in Section 2.06.

(b) General Terms. The Bonds shall be issued as fully registered Bonds, without coupons, in Authorized Denominations and shall all be dated as of the Issue Date. The Bonds shall mature, subject to prior redemption as provided in Article IV, upon the terms and conditions hereinafter set forth, on December 1, 2028. The Bonds shall bear interest at the rate determined as provided in subsection (c) of this Section 2.01; provided that any overdue principal and, to the extent permitted by law, any overdue interest shall bear interest at the rate of 1.00% per annum over the rate otherwise borne by the Bonds.

The Bonds shall be numbered consecutively from 1 upward. Each Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless it is registered and authenticated after a Record Date and on or prior to the related Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless it is registered and authenticated before the Record Date for the first Interest Payment Date, in which event they shall bear interest from the Issue Date; provided, however, that if, as shown by the records of the Paying Agent, interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for registration of transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for on the Bonds, or, if no interest has been paid or duly provided for on the Bonds, from the Issue Date. Payment of the interest on any Bond shall be made to the person appearing on the bond registration books of the Registrar as the registered holder thereof on the Record Date, such interest to be paid by the Paying Agent to such registered holder (i) by bank check or draft mailed by first class mail on the Interest Payment Date, to such holder's address as it appears on the registration

books of the Registrar or at such other address as has been furnished to the Registrar in writing by such holder, or (ii) during any Rate Period other than a Term Rate Period in immediately available funds (by wire transfer or by deposit to the account of the holder of any such Bond if such account is maintained with the Paying Agent), but in respect of any holder of Bonds in a Daily Rate Period or a Weekly Rate Period only to any holder which owns Bonds in an aggregate principal amount of at least $1,000,000 on the Record Date, according to the instructions given by such holder to the Registrar or, if no such instructions have been provided as of the Record Date, by check or draft mailed by first class mail to the holder at such holder's address as it appears as of the Record Date on the registration books of the Registrar; except, in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the holders in whose name any such Bonds are registered as of a special record date to be fixed by the Trustee, notice of which shall be given to such owners not less than ten (10) days prior thereto. Both the principal of and premium, if any, on the Bonds shall be payable upon surrender thereof in lawful money of the United States of America at the Principal Office of the Paying Agent. Notwithstanding the foregoing, interest on any Bond bearing a Variable Term Rate shall be paid only upon presentation to the Tender Agent of the Bond on which such payment is due.

(c) Interest Rates and Rate Periods. The Bonds shall bear interest until final payment of the principal or redemption price thereof shall have been made or provided for in accordance with the provisions hereof, whether at maturity, upon redemption or otherwise. During any Rate Period other than a Term Rate Period interest on the Bonds shall be computed upon the basis of a 365- or 366-day year, as applicable, for the number of days actually elapsed. During any Term Rate Period interest on the Bonds shall be computed upon the basis of a 360-day year, consisting of twelve 30-day months. The Bonds shall bear interest for the periods and at the rates set forth in this subsection (c); provided, however, that any Credit Provider Bonds shall bear interest at the Reimbursement Rate. Notwithstanding any other provision of this Indenture, it shall not be required that all Bonds bear interest at the same rate, provided that, except as provided in Section 2.01(c)(v)(D) hereof, no more than one Rate Period may apply to the Bonds. The Trustee shall provide the Borrower with notice of the interest rate or rates as provided in Section 8 of the Tender Agreement.

(i) Rate Periods; Initial Rate Period. The term of the Bonds shall be divided into consecutive Rate Periods during which such Bonds shall bear interest at the Daily Rate, Weekly Rate, Variable Term Rate(s) or Term Rate; provided, however, that, to the extent determined in accordance with Section 2.01(c)(v)(D)(2) hereof, a portion of the Bonds may bear interest at a Daily Rate, a Weekly Rate or a Term Rate while

other Bonds continue to bear interest at Variable Term Rates. The Initial Rate Period for the Bonds shall be a Weekly Rate Period and during such Initial Rate Period the Bonds shall bear interest at Weekly Rates determined as provided in Section 2.01(c)(iii). The Rate Period with respect to the Bonds shall be as provided above until adjusted as provided herein.

(ii) Daily Rate.

(A) Determination of Daily Rate. During each Daily Rate Period, the Bonds shall bear interest at the Daily Rate, determined by the Remarketing Agent either on each Business Day for such Business Day or on the next preceding Business Day for the Business Day next succeeding such date of determination and as may be determined by the Remarketing Agent for any date that is not a Business Day on any such day during which there shall be active trading in Tax-Exempt obligations comparable to the Bonds for such day. The Daily Rate shall be the lowest rate determined by the Remarketing Agent (based on the examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the rate which would enable the Remarketing Agent to sell the Bonds on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount thereof. If the Remarketing Agent shall not have determined a Daily Rate for any day, the Daily Rate shall be the same as the Daily Rate for the immediately preceding day. In no event shall the Daily Rate be greater than the Maximum Interest Rate.

(B) Adjustment to Daily Rate. At any time (subject to the provisions of (1)(b) of this paragraph), the Borrower, by written notice to the City, the Trustee, the Paying Agent and the Remarketing Agent, may elect that the Bonds shall bear interest at a Daily Rate. Such notice (1) shall specify the effective date of such adjustment to a Daily Rate, which shall be (a) a Business Day not earlier than the twelfth day (the fifteenth day if the then current Rate Period shall be a Term Rate Period or if the Bonds are then held in book-entry form as provided in Section 2.01(h)) following the fifth Business Day after the date of receipt by the Trustee of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee); (b) in the case of an adjustment from a Term Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Borrower pursuant to Section 4.01(a)(2)(C) hereof or the day immediately following the last day of the then current Term Rate Period; and (c) in the case of an adjustment from a Variable Term Rate Period, either (i) the day immediately following the last day of the then current Variable Term Rate Period as determined in accordance with Section 2.01(c)(v)(D)(1) hereof, or (ii) for each Bond, the day immediately following the last day of the last Variable Term Segment for such Bond in the then current Variable Term Rate Period as determined in accordance with Section 2.01(c)(v)(D)(2)

hereof; and (2) if the adjustment is from a Term Rate Period, shall be accompanied by an opinion of Bond Counsel addressed to the City to the effect that such adjustment (a) is authorized or permitted by the Indenture and the Law, and (b) will not adversely affect the Tax-Exempt status of the interest on the Bonds.

(C) Notice of Adjustment to Daily Rate. The Trustee shall give Notice by Mail of an adjustment to a Daily Rate Period to the holders of the affected Bonds not less than 12 days (15 days if the then current Rate Period shall be a Term Rate Period or if such Bonds are then held in book-entry form as provided in Section 2.01(h)) prior to the effective date of such Daily Rate Period. Such notice shall state (1) that the interest rate on the Bonds will be adjusted to a Daily Rate, (2) the effective date of the Daily Rate Period, (3) that the Bonds are subject to mandatory tender for purchase on such effective date, (4) the procedures for such mandatory tender and (5) that the holders of the Bonds do not have the right to retain their Bonds on such effective date.

(iii) Weekly Rate.

(A) Determination of Weekly Rate. During each Weekly Rate Period, the Bonds shall bear interest at the Weekly Rate, determined by the Remarketing Agent no later than the first day of such Weekly Rate Period and thereafter no later than Tuesday of each week during such Weekly Rate Period, unless any such Tuesday shall not be a Business Day, in which event the Weekly Rate shall be determined by the Remarketing Agent no later than the Business Day next succeeding such Tuesday. The Weekly Rate shall be the rate determined by the Remarketing Agent (based on the examination of Tax-Exempt obligations comparable to the Bonds known by such Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the lowest rate which would enable the Remarketing Agent to sell the Bonds on the effective date of such rate at a price (without regarding accrued interest) equal to 100% of the principal amount thereof. If the Remarketing Agent shall not have determined a Weekly Rate for any period, the Weekly Rate shall be the same as the Weekly Rate in effect for the immediately preceding Weekly Rate Period. In no event shall any Weekly Rate be greater than the Maximum Interest Rate. The first Weekly Rate determined for each Weekly Rate Period shall apply to the period commencing on the first day of such Rate Period and ending on the next succeeding Tuesday. Thereafter, each Weekly Rate shall apply to the period commencing on each Wednesday and ending on the next succeeding Tuesday, unless such Weekly Rate Period shall end on a day other than Tuesday, in which event the last Weekly Rate for such Weekly Rate Period shall apply to the period commencing on the Wednesday preceding the last day of such Weekly Rate Period and ending on such last day.

(B) Adjustment to Weekly Rate. The Borrower, by written notice to the City, the Trustee, the Paying Agent and the Remarketing Agent, may at any time (subject to the provisions of (1)(b) of this paragraph) elect that the Bonds shall bear interest at a Weekly Rate. Such notice (1) shall specify the effective date of such adjustment to a Weekly Rate, which shall be (a) a Business Day not earlier than the twelfth day (the fifteenth day if the then current Rate Period shall be a Term Rate Period or if the Bonds are then held in book-entry form as provided in Section 2.01(h)) following the fifth Business Day after the date of receipt by the Trustee of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee); (b) in the case of an adjustment from a Term Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Borrower pursuant to Section 4.01(a)(2)(C) hereof or the day immediately following the last day of the then current Term Rate Period; and (c) in the case of an adjustment from a Variable Term Rate Period either (i) the day immediately following the last day of the then current Variable Term Rate Period as determined in accordance with Section 2.01(c)(v)(D)(1) hereof, or (ii) for each Bond, the day immediately following the last day of the last Variable Term Segment for such Bond in the then current Variable Term Rate Period as determined in accordance with Section 2.01(c)(v)(D)(2) hereof; and (2) if the adjustment is from a Term Rate Period shall be accompanied by an opinion of Bond Counsel addressed to the City to the effect that such adjustment (a) is authorized or permitted by the Indenture and the Law, and (b) will not adversely affect the Tax-Exempt status of interest on the Bonds.

(C) Notice of Adjustment to Weekly Rate. The Trustee shall give Notice by Mail of an adjustment to a Weekly Rate Period to the holders of the affected Bonds not less than 12 days (15 days if the then current Rate Period shall be a Term Rate Period or if such Bonds are then held in book-entry form as provided in Section 2.01(h)) prior to the effective date of such Weekly Rate Period. Such notice shall state (1) that the interest rate on the Bonds will be adjusted to a Weekly Rate, (2) the effective date of such Weekly Rate Period, (3) that the Bonds are subject to mandatory tender for purchase on such effective date, and (4) the procedures for such mandatory tender, and (5) that the holders of the Bonds do not have the right to retain their Bonds on such effective date.

(iv) Term Rate.

(A) Determination of Term Rate. During each Term Rate Period the Bonds shall bear interest at the Term Rate, which shall be determined by the Remarketing Agent on a Business Day selected by the Remarketing Agent, but not more than 40 days prior to and not later than the effective date of such Term Rate Period. The Term Rate shall be the rate determined by the Remarketing Agent on such date, and communicated on such date to the Trustee, the Paying Agent and the Borrower, by written notice

or by telephone promptly confirmed by telecopy or other writing, as being the lowest rate (based on the examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) which would enable the Remarketing Agent to sell the Bonds on the effective date of such Term Rate Period at a price (without regard to accrued interest) equal to 100% of the principal amount thereof; provided, however, that if, for any reason, a Term Rate for any Term Rate Period shall not be determined or effective or if an adjustment from a Term Rate Period to another Rate Period shall not be effective, the Rate Period for the Bonds shall automatically convert to a Daily Rate Period. No opinion of Bond Counsel shall be required in connection with the automatic adjustment to the Daily Rate pursuant to this paragraph. If a Daily Rate for the first day of such Daily Rate Period is not determined as provided in Section 2.01(c)(ii) hereof, the Daily Rate for the first day of such Daily Rate Period shall be eighty percent (80%) of the most recent One-Year Note Index theretofore published in The Bond Buyer. In no event shall any Term Rate be greater than the Maximum Interest Rate.

(B) Adjustment to or Continuation of Term Rate. At any time (subject to the provisions of (2) of this paragraph), the Borrower, by written notice to the City, the Trustee, the Paying Agent and the Remarketing Agent, may elect that the Bonds shall bear, or continue to bear, interest at a Term Rate, and if it shall so elect, shall determine the duration of the Term Rate Period during which the Bonds shall bear interest at such Term Rate. At the time the Borrower so elects an adjustment to or continuation of a Term Rate Period, the Borrower may specify two or more consecutive Term Rate Periods and, if the Borrower so specifies, shall specify the duration of each such Term Rate Period as provided in this paragraph (B). Such notice shall specify the effective date of each Term Rate Period, which shall be (1) a Business Day not earlier than the twelfth day (the fifteenth day if the then current Rate Period shall be a Term Rate Period or if the Bonds are then held in book-entry form as provided in Section 2.01(h)) following the fifth Business Day after the date of receipt by the Trustee of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee); (2) in the case of an adjustment from a Term Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Borrower pursuant to Section 4.01(a)(2)(C) hereof or the day immediately following the last day of the then current Term Rate Period; and (3) in the case of an adjustment from a Variable Term Rate Period either (i) the day immediately following the last day of the then current Variable Term Rate Period as determined in accordance with Section 2.01(c)(v)(D)(1) hereof, or (ii) for each Bond, the day immediately following the last day of the last Variable Term Segment for such Bond in the then current Variable Term Rate Period as determined in accordance with Section 2.01(c)(v)(D)(2) hereof; provided, however, that if prior to the Borrower's making

such election, any Bonds shall have been called for redemption and such redemption shall not have theretofore been effected, the effective date of such Term Rate Period shall not precede such redemption date. In addition, such notice (i) shall specify the last day of such Term Rate Period (which shall be either the day preceding the date of final maturity of the Bonds or a day which both immediately precedes a Business Day and is at least one year after such effective date), and (ii) unless such Term Rate Period immediately succeeds a Term Rate Period of the same duration and is subject to the same optional redemption rights under Section 4.01(a)(2)(C) hereof, shall be accompanied by an opinion of Bond Counsel addressed to the City to the effect that such adjustment (a) is authorized or permitted by the Indenture and the Law, and (b) will not adversely affect the Tax-Exempt status of interest on the Bonds.

If, by the date required to give notice to Bondholders pursuant to paragraph (C) below, the Trustee shall not have received notice of the Borrower's election that the Bonds shall bear interest at a Daily Rate, a Weekly Rate, a Term Rate or a Variable Term Rate accompanied by appropriate opinions of Bond Counsel, the next succeeding Rate Period shall be a Daily Rate Period. No opinion of Bond Counsel shall be required in connection with the automatic adjustment to a Daily Rate pursuant to this paragraph. If a Daily Rate for the first day of such Daily Rate Period is not determined as provided in Section 2.01(c)(ii) hereof, the Daily Rate for the first day of such Daily Rate Period shall be eighty percent (80%) of the most recent One-Year Note Index theretofore published in The Bond Buyer.

At the same time that the Borrower elects to have the Bonds bear interest at a Term Rate or to continue to bear interest at a Term Rate, the Borrower may also elect that such Term Rate Period shall be automatically renewed for successive Term Rate Periods each having the same duration as the Term Rate Period so specified; provided, however, that if the last day of any such successive Term Rate Period shall not be a day immediately preceding a Business Day, then such successive Term Rate Period shall end on the first day immediately preceding the Business Day next succeeding such day, or if such last day would be after the day prior to the final maturity date of the Bonds, such Term Rate Period shall end on the day prior to such maturity date; and provided, further, that such election must be accompanied by an opinion of Bond Counsel addressed to the City to the effect that such continuing automatic renewals of such Term Rate Period (1) are authorized or permitted by the Indenture and the Law, and (2) will not adversely affect the Tax-Exempt status of interest on the Bonds. If such election is made, no opinion of Bond Counsel shall be required in connection with the commencement of each successive Term Rate Period determined in accordance with such election. Further, at the same time that the Borrower elects to have the Bonds bear interest at a Term Rate or continue to bear interest at a Term Rate, subject to the

provisions of Section 4.01(a)(4) hereof, the Borrower may also specify to the Trustee optional redemption prices and periods different (including that there be no such optional redemption) from those set out in Section 4.01(a) during the Term Rate Period(s) with respect to which such election is made.

(C) Notice of Adjustment to or Continuation of Term Rate. The Trustee shall give Notice by Mail of an adjustment to or continuation of a Term Rate Period to the holders of the affected Bonds not less than 12 days (15 days if the then current Rate Period is a Term Rate Period or if such Bonds are then held in book-entry form as provided in Section 2.01(h)) prior to the effective date of such Term Rate Period. In the event such adjustment or continuation is from a Term Rate Period to a Term Rate Period of equal duration, such notice shall state (1) that the interest rate on the Bonds will be adjusted to, or continue to be, a Term Rate, (2) the effective date and the last date of the Term Rate Period, (3) that the Term Rate for such Term Rate Period will be determined not later than the effective date thereof, (4) how such Term Rate may be obtained from the Remarketing Agent, (5) the Interest Payment Dates after such effective date, (6) that, during such Term Rate Period, the holders of Bonds will not have the right to tender their Bonds for purchase, (7) the redemption provisions that will apply to the Bonds during such Term Rate Period, (8) whether any Credit Facility shall be in effect after such effective date and the terms of any such Credit Facility (including the interest coverage and expiration date thereof), and (9) the rating or ratings, if any, which the Bonds are expected to receive from the Rating Agencies as of such effective date. In the event such adjustment or continuation is not from a Term Rate Period to a Term Rate Period of equal duration, such notice shall state (1) that the interest rate on the Bonds will be adjusted to, or continue to be, a Term Rate, (2) the effective date of the Term Rate Period, (3) that the Bonds shall be subject to mandatory tender for purchase on such effective date, (4) the procedures for such mandatory tender, and (5) that the holders of the Bonds do not have the right to retain their Bonds on such effective date.

(v) Variable Term Rate.

(A) Determination of Variable Term Segments and Variable Term Rates. During each Variable Term Rate Period, each Bond shall bear interest during each Variable Term Segment for such Bond at the Variable Term Rate for such Bond as described herein. Each Variable Term Segment and Variable Term Rate for each Bond shall be the Variable Term Segment and Variable Term Rate determined by the Remarketing Agent by agreement with the purchaser of such Bond. Each Variable Term Segment for any Bond shall be a period, of not less than one nor more than 230 days, determined by the Remarketing Agent to be, in its judgment, the period which, together with all other Variable Term Segments for all Bonds then outstanding, is likely to result in the lowest

overall net interest expense on the Bonds; provided, however, that any such Bond purchased on behalf of the Borrower and remaining unsold in the hands of the Remarketing Agent as of the close of business on the effective date of the Variable Term Segment for such Bond shall have a Variable Term Segment of one day or, if such Variable Term Segment would not end on a day immediately preceding a Business Day, a Variable Term Segment of more than one day ending on the day immediately preceding the next Business Day; provided, further, however, that (1) each Variable Term Segment shall end on a day which immediately precedes a Business Day and no Variable Term Segment shall extend beyond the final maturity date of the Bonds, and (2) if for any reason the Remarketing Agent fails or is unable to determine a Variable Term Segment on any Bond, the Variable Term Segment for such Bond shall be one day, unless such Variable Term Segment would end on a day which does not precede a Business Day, in which case such Variable Term Segment shall end on the first day immediately preceding the Business Day next succeeding such day.

The Variable Term Rate for each Variable Term Segment for each Bond shall be the rate determined by the Remarketing Agent (based on the examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under the then prevailing market conditions) no later than the first day of such Variable Term Segment (and in the case of a Variable Term Segment of one day, no later than 2:00 p.m. New York time, on such date) to be the lowest rate which would enable the Remarketing Agent to sell the Bonds on the effective date of such rate at a price (without regarding accrued interest) equal to 100% of the principal amount thereof. If a Variable Term Rate for a Variable Term Segment of one day is not determined or effective, the Variable Term Rate for such Variable Term Segment of one day shall be eighty percent (80%) of the most recent One-Year Note Index theretofore published in The Bond Buyer. In no event shall the Variable Term Rate for any Bond exceed the Maximum Interest Rate.

(B) Adjustment to Variable Term Rates. At any time (subject to the provisions of (1)(b) of this paragraph), the Borrower, by written notice to the City, the Trustee, the Paying Agent and the Remarketing Agent, may elect that the Bonds shall bear interest at Variable Term Rates. Such notice (1) shall specify the effective date of the Variable Term Rate Period during which the Bonds shall bear interest at Variable Term Rates, which shall be (a) a Business Day not earlier than the twelfth day (the fifteenth day if the then current Rate Period shall be a Term Rate Period or if the Bonds are then held in book-entry form as provided in Section 2.01(h)) following the fifth Business Day after the date of receipt by the Trustee of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee), and (b) in the case of an adjustment from a Term Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Borrower pursuant to Section 4.01(a)(2)(C) hereof or the day

immediately following the last day of the then current Term Rate Period; provided, however, that if prior to the Borrower making such election any Bonds shall have been called for redemption and such redemption shall not have theretofore been effected, the effective date of such Variable Term Rate Period shall not precede such redemption date; and (2) shall be accompanied by an opinion of Bond Counsel addressed to the City to the effect that such adjustment (a) is authorized or permitted by the Indenture and the Law and (b) will not adversely affect the Tax-Exempt status of interest on the Bonds.

(C) Notice of Adjustment to Variable Term Rates. The Trustee shall give Notice by Mail of an adjustment to a Variable Term Rate Period to the holders of the affected Bonds not less than 12 days (15 days if the then current Rate Period shall be a Term Rate Period or if such Bonds are then held in book-entry form as provided in Section 2.01(h)) prior to the effective date of such Variable Term Rate Period. Such notice shall state (1) that the interest rate on the Bonds will be adjusted to Variable Term Rates, (2) the effective date of such Variable Term Rate Period, (3) that the Bonds are subject to mandatory tender for purchase on the effective date of such Variable Term Rate Period, (4) the procedures for such mandatory tender, and (5) that the holders of the Bonds do not have the right to retain their Bonds on such effective date.

(D) Adjustment from Variable Term Rates. At any time during a Variable Term Rate Period, the Borrower may elect that the Bonds shall no longer bear interest at Variable Term Rates and shall instead bear interest as otherwise permitted under this Indenture. The Borrower shall notify the City, the Trustee, the Paying Agent and the Remarketing Agent of such election and shall specify the Rate Period to follow with respect to such Bonds upon cessation of the Variable Term Rate Period and instruct the Remarketing Agent to (1) determine Variable Term Segments of such duration that, as soon as possible, all Variable Term Segments shall end on the same date, not earlier than the eleventh day following the fifth Business Day (or such shorter period acceptable to the Trustee), following the receipt by the Trustee of the notice required by the second succeeding sentence, which date shall be the last day of the then current Variable Term Rate Period, and, upon the establishment of such Variable Term Segments the day next succeeding the last day of all such Variable Term Segments shall be the effective date of the Term Rate Period, Weekly Rate Period or Daily Rate Period elected by the Borrower; or (2) determine Variable Term Segments that will in the judgment of the Remarketing Agent best promote an orderly transition to the next succeeding Rate Period to apply to such Bonds, beginning not earlier than the eleventh day following the fifth Business Day (or such shorter period acceptable to the Trustee) following the receipt by the Trustee of the notice required by the second succeeding sentence. If the alternative in clause (2) above is selected, the day next succeeding the last day of the Variable Term Segment for each Bond shall be with

respect to such Bond the effective date of the Rate Period elected by the Borrower. The Remarketing Agent, promptly upon the determination thereof, shall give written notice of such last and such effective dates to the Borrower, the Trustee and the Paying Agent. During any transitional period from a Variable Term Rate Period to the next succeeding Rate Period in accordance with clause (2) above, the provisions of this Indenture relating to the Bonds shall be deemed to apply to the Bonds as follows: The Bonds continuing to bear interest at Variable Term Rates shall have applicable to them the provisions hereunder theretofore applicable to such Bonds as if all Bonds were continuing to bear interest at Variable Term Rates and the Bonds bearing interest at the interest rate to which the transition is being made will have applicable to them the provisions hereunder as if all Bonds were bearing interest at such interest rate.

(vi) Determination Conclusive. The determination of any Variable Term Rate, Daily Rate, Weekly Rate and Term Rate and each Variable Term Segment by the Remarketing Agent shall be conclusive and binding upon the Remarketing Agent, the Trustee, the Paying Agent, the City, the Borrower and the holders of the Bonds.

(d) Holder's Option to Tender for Purchase. (i) During any Daily Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof), upon (A) delivery to the Tender Agent at its Principal Office, by no later than 10:30 a.m., New York time, on such Business Day, of an irrevocable notice by telephone or in person (promptly confirmed in writing), which states the principal amount of such Bond to be tendered for purchase and the Purchase Date, and (B) delivery of such Bond tendered for purchase to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in a form satisfactory to the Tender Agent, executed in blank by the holder thereof with the signature of such holder guaranteed by a bank, trust company or member firm of the New York Stock Exchange, at or prior to 3:00 p.m., New York time, on the Purchase Date. The Tender Agent shall keep a written record of the notice described in clause (A).

(ii) During any Weekly Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest from the Interest Payment Date next preceding the Purchase Date to the Purchase Date (unless the Purchase Date shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof), upon (A) delivery to the Tender Agent at its

Principal Office of an irrevocable notice in writing, or by telephone confirmed in writing, by 5:00 p.m., New York time, on any Business Day, which states the principal amount of such Bond to be tendered for purchase and the Purchase Date, which date shall not be prior to the seventh day next succeeding the date of the delivery of such notice to the Tender Agent, and (B) delivery of such Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in a form satisfactory to the Tender Agent, executed in blank by the holder thereof with the signature of such holder guaranteed by a bank, trust company or member firm of the New York Stock Exchange, at or prior to 3:00 p.m., New York time, on the Purchase Date. The Tender Agent shall keep a written record of the notice described in clause (A).

(iii) Any Bond or portion thereof in an Authorized Denomination shall be purchased on the first day of any Term Rate Period which is preceded by a Term Rate Period of equal duration at a purchase price equal to 100% of the principal amount thereof plus accrued interest from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof), upon (A) delivery to the Tender Agent at its Principal Office of an irrevocable notice in writing by 5:00 p.m. New York time on any Business Day not less than seven days before the Purchase Date, which states the principal amount of such Bond to be tendered for purchase and the Purchase Date, and (B) delivery of such Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in a form satisfactory to the Tender Agent, executed in blank by the holder thereof with the signature of such holder guaranteed by a bank, trust company or member firm of the New York Stock Exchange, at or prior to 3:00 p.m. New York time, on the Purchase Date. The Tender Agent shall keep a written record of the notice described in clause (A).

(iv) If any Bond is to be purchased in part pursuant to (i), (ii) or (iii), the amount so purchased and the amount not so purchased must each be an Authorized Denomination.

(e) Mandatory Tender for Purchase. (i) Bonds shall be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest to the Purchase Date described below, upon the occurrence of any of the events stated below:

(A) as to any Bond, on the effective date of any change in a Rate Period, other than the effective date of a Term Rate Period which was preceded by a Term Rate Period of the same duration;

(B) as to each Bond in a Variable Term Rate Period, on the day next succeeding the last day of any Variable Term Segment with respect to such Bond;

(C) as to all Bonds, on the second Business Day next preceding the termination of any Credit Facility (whether upon the stated termination date thereof or upon the substitution of a different Credit Facility) unless the Trustee shall have received, on or before the twentieth day prior to such termination date, written confirmation from each Rating Agency that such termination shall not result in the lowering or withdrawal of such Rating Agency's then current rating on the Bonds; or

(D) as to all Bonds, on a day, as specified by the Trustee, not more than 20 days after receipt by the Trustee from the Credit Provider, within 15 days after a drawing on the Credit Facility, of a notice in the form set forth in the Credit Facility to the effect that the Credit Provider has not been reimbursed for such drawing and that the amount available to be drawn thereunder has not been reinstated.

(ii) The Bonds are also subject to mandatory tender for purchase on the day next succeeding any Term Rate Period which ends prior to the day originally established as the last day of such Term Rate Period, at a purchase price equal to the principal amount thereof plus an amount equal to any premium which would have been payable on such day had the Borrower directed redemption of such Bonds pursuant to Section 4.01(a)(2)(C) hereof. Notwithstanding the foregoing sentence, if a Credit Facility shall be in effect on the day next succeeding such Term Rate Period, the Bonds shall not be subject to such mandatory tender and the Trustee shall not give notice of such mandatory tender unless the Trustee then holds Available Amounts sufficient to pay, or the Credit Facility may be drawn upon to pay, any premium required to be paid to holders of the Bonds in connection with such tender.

(iii) The Trustee shall give Notice by Mail to the holders of the Bonds at their addresses shown on the registration books kept by the Registrar, of the termination of any Credit Facility and of the provision of any proposed substitute Credit Facility, on the fifteenth day prior to such termination or provision, which notice shall (i) include a general description (which shall be provided to the Trustee by the Borrower) of any Credit Facility in effect prior to the termination or provision and any substitute Credit Facility to be in effect upon such termination or provision; (ii) state the date of such termination or provision; (iii) state the rating or ratings, if any, which the Bonds are expected to receive from the Rating Agencies following such termination or provision; and (iv) if by the date of mailing of such notice the Trustee shall not have received written confirmation from each Rating Agency that such termination or provision shall not result in the lowering or

withdrawal of such Rating Agency's then current rating on the Bonds, state that the Bonds shall be subject to mandatory tender for purchase on the second Business Day next preceding such termination in accordance with Section 2.01(e)(i)(C) hereof.

(iv) Holders of Bonds bearing interest at Variable Term Rates may on any Purchase Date occurring pursuant to Section 2.01(e)(i)(B) hereof direct the Trustee not to purchase their Bonds, or portions of the principal amount thereof (provided that the portion to be purchased and the portion directed not to be purchased both are Authorized Denominations) on such Purchase Date. Such direction shall be given by telephone to the Tender Agent at its Principal Office, on or prior to 10:30 a.m. New York time on the first day of the applicable Variable Term Segment, specifying the numbers and denominations of Bonds owned by such Bondholder and directing the Trustee not to purchase such Bonds or portions thereof. The Tender Agent will give immediate notice to the Trustee upon the receipt of each such notice. Any owner who gives such a direction that its Bond not be purchased must surrender such Bond to the Tender Agent in return for a Bond bearing interest for a new Variable Term Segment. Any instrument delivered to the Trustee in accordance with this paragraph (iv) shall be irrevocable with respect to the purchase for which such instrument was delivered and shall be binding upon any subsequent holder of the Bond to which it relates, including any Bond issued in exchange therefor or upon the registration of transfer thereof.

(v) The Trustee shall, without further direction or authorization, give Notice by Mail to the holders of the Bonds at their addresses shown on the registration books kept by the Registrar, of any mandatory tender occurring by reason of Section 2.01(e)(1)(D) hereof, no later than five (5) days after receiving the notice from the Credit Provider described in Section 2.01(e)(1)(D), and not less than fifteen (15) days prior to such mandatory tender date.

(f) Payment of Purchase Price. If the Bonds to be purchased pursuant to subsection (d) or (e) of this Section are remarketed, the Tender Agent shall pay the purchase price of such Bonds by drawing upon the moneys deposited therefor according to the terms of the Tender Agreement. The Registrar shall register new Bonds as directed by the Remarketing Agent and make such Bonds available for delivery as provided in the Tender Agreement on the date of such purchase. Payment of the purchase price of any Bond shall be made in immediately available funds for Bonds in Variable Term, Daily or Weekly Rate Periods, or Bonds then held in book-entry only form as provided in Section 2.01(h), and in clearinghouse funds for Bonds in Term Rate Periods unless such Bonds are then held in book-entry only form, but in each case only upon presentation and surrender of such Bond to the Tender Agent except as otherwise provided in Section 2.01(h).

If moneys sufficient to pay the purchase price of Bonds to be purchased pursuant to Section 2.01(d) or Section 2.01(e) shall be held by the Tender Agent on the date such Bonds are to be purchased such Bonds shall be deemed to have been purchased and shall be purchased according to the terms of the Tender Agreement, for all purposes of this Indenture, irrespective of whether or not such Bonds shall have been delivered to the Tender Agent, and the former holder of such Bonds shall have no claim thereon, under this Indenture or otherwise, for any amount other than the purchase price thereof.

In the event any Bonds purchased according to the terms of the Tender Agreement as provided in this Section 2.01 shall not be presented to the Tender Agent, the Tender Agent shall segregate and hold uninvested the moneys for the purchase price of such Bonds in trust, without liability for interest thereon, for the benefit of the former holders of such Bonds, who shall, except as provided in the following sentence, thereafter be restricted exclusively to such moneys for the satisfaction of any claim for the purchase price of such Bonds. Any moneys which the Tender Agent shall segregate and hold in trust for the payment of the purchase price of any Bond and remaining unclaimed for two (2) years after the date of purchase shall, upon the Borrower's written request to the Tender Agent, be paid to the Borrower. After the payment of such unclaimed moneys to the Borrower, the former holder of such Bond shall look only to the Borrower for the payment thereof.

(g) Form of Bonds. The Bonds and the certificate of authentication to be executed thereon shall be in substantially the form attached hereto as Exhibit A, with such appropriate variations, omissions and insertions as are permitted or required by this Indenture. Pursuant to recommendations promulgated by the Committee on Uniform Security Identification Procedures, "CUSIP" numbers may be printed on the Bonds. The Bonds may bear such endorsement or legend relating thereto as may be required to conform to usage or law with respect thereto. If appropriate, the Bonds may be printed with a portion of the text printed on the reverse side thereof and with a legend printed on the front referring to such text to the following effect: "Reference is hereby made to the further provisions of this Bond set forth on the back hereof and such further provisions are hereby incorporated by reference as if set forth here in full." Upon adjustment to a Term Rate Period, the form of Bond may include a summary of the mandatory and optional redemption provisions to apply to the Bonds during such Term Rate Period, or a statement to the effect that the Bonds will not be optionally redeemed during such Term Rate Period, provided that the Registrar shall not authenticate such a revised Bond form prior to receiving an opinion of Bond Counsel that such Bond form conforms to the terms of the Law and of this Indenture and that authentication thereof will not adversely affect the Tax-Exempt status of the Bonds.

(h) Book-Entry System. Unless otherwise determined by the City, the Bonds shall be issued in the form of a separate single certificated fully registered Bond, registered in the name of Cede & Co., as nominee of DTC, or any successor nominee (the "Nominee"). Except as provided in paragraph (iii) below, all of the outstanding Bonds shall be so registered in the registration books kept by the Registrar, and the provisions of this subsection (h) shall apply thereto.

(i) With respect to Bonds registered on the registration books kept by the Registrar in the name of the Nominee, the City, the Paying Agent and the Trustee shall have no responsibility or obligation to any DTC Participant or to any person on behalf of which a DTC Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the City, the Paying Agent and the Trustee shall have no responsibility or obligation with respect to (1) the accuracy of the records of DTC, the Nominee or any DTC Participant with respect to any ownership interest in the Bonds, (2) the delivery to any DTC Participant or any other person, other than a Bondholder, as shown in the registration books kept by the Registrar, of any notice with respect to the Bonds, including any notice of redemption, or (3) the payment to any DTC Participant or any other person, other than a Bondholder, as shown in the registration books kept by the Registrar, of any amount with respect to principal of, premium, if any, or interest on the Bonds. The City, the Paying Agent and the Trustee may treat and consider the person in whose name each Bond is registered in the registration books kept by the Registrar as the holder and absolute owner of such Bond for the purpose of payment of principal, premium and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever; provided, however, notwithstanding the foregoing provisions, the Tender Agent shall accept any notice of optional tender pursuant to Section 2.01(d) from any beneficial owner of any Bond held in book-entry form, but shall make payment of the purchase price thereof only to the registered owner of such Bond. The Paying Agent shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Bondholders, as shown in the registration books kept by the Registrar, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than a Bondholder, as shown in the registration books kept by the Registrar, shall receive a certificated Bond evidencing the obligation of the City to make payments of principal, premium, if any, and interest pursuant to this Indenture.

(ii) The City, the Paying Agent and the Trustee shall execute and deliver to DTC a letter of representation in

customary form with respect to the Bonds in book-entry form (the "Representation Letter"), but such Representation Letter shall not in any way limit the provisions of the foregoing paragraph (i) or in any other way impose upon the City any obligation whatsoever with respect to persons having interests in the Bonds other than the Bondholders, as shown on the registration books kept by the Registrar. The Trustee and the Paying Agent shall take all action necessary for all representations of the City in the Representation Letter with respect to the Trustee and the Paying Agent to be complied with at all times.

(iii) DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving reasonable notice to the City, the Paying Agent and the Trustee and discharging its responsibilities with respect thereto under applicable law. The City, with the consent of the Borrower, may, and upon request of the Borrower shall, terminate the services of DTC with respect to the Bonds. Upon the discontinuance or termination of the services of DTC with respect to the Bonds, unless a substitute securities depository is appointed by the City (with the consent of the Borrower) to undertake the functions of DTC hereunder, the City, at the expense of the Borrower, is obligated to deliver Bond certificates to the beneficial owners of such Bonds, as described in this Indenture, and such Bonds shall no longer be restricted to being registered in the registration books kept by the Registrar in the name of the Nominee, but may be registered in whatever name or names Bondholders transferring or exchanging Bonds shall designate, in accordance with the provisions of this Indenture.

(iv) Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal or, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the Representation Letter. Bondholders shall have no lien or security interest in any rebate or refund paid by DTC to the Paying Agent which arises from the payment by the Paying Agent of principal of or interest on the Bonds in immediately available funds to DTC.

(v) Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is held in book-entry form, such Bond need not be delivered in connection with any tender pursuant to Section 2.01(d) hereof, and all references in said Section to physical delivery of Bonds shall be ineffective. In such case, payment of the purchase price in connection with such tender shall be made to the registered holder of such Bonds on the date designated for such payment, without further action by the beneficial owner who delivered the tender notice, and transfer of beneficial ownership shall be made in accordance with the procedures of the Nominee.

(vi) So long as all outstanding Bonds are registered in the name of the Nominee or its registered assigns, the City, the Trustee, the Paying Agent and the Tender Agent shall cooperate with the Nominee, as the sole registered Bondholder, and its registered assigns, in effecting payment of the principal of, redemption premium, if any, and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

(vii) Upon delivery by DTC to the Registrar of written notice to the effect that DTC has determined to substitute a new Nominee in place of Cede & Co., and subject to the provisions of Section 2.01(b) hereof with respect to the payment of interest to the registered owners of the Bonds as of the close of business on the Record Date next preceding the applicable Interest Payment Date, the term "Nominee" shall refer to such new nominee of DTC.

Section 2.02. Execution of Bonds. The Bonds shall be signed in the name and on behalf of the City with the manual or facsimile signature of its Mayor and attested by the manual or facsimile signature of its City Clerk or Deputy City Clerk, under the seal of the City. Such seal may be in the form of a facsimile of the City's seal and may be imprinted or impressed upon the Bonds. The Bonds shall then be delivered to the Registrar or the Tender Agent for authentication by the Trustee or the Tender Agent, as the case may be. In case any officer who shall have signed any of the Bonds shall cease to be such officer before the Bonds so signed or attested shall have been authenticated or delivered by the Registrar or issued by the City, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issuance, shall be as binding upon the City as though those who signed and attested the same had continued to be such officers of the City. Also, any Bond may be signed on behalf of the City by such persons as on the actual date of the execution of such Bond shall be the proper officers although on the nominal date of such Bond any such person shall not have been such officer.

Only such of the Bonds as shall bear thereon a certificate of authentication in the form recited in Exhibit A hereto, manually executed by the Registrar or the Tender Agent, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Registrar shall be conclusive evidence that the Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

Upon authentication of any Bond, the Registrar or the Tender Agent, as the case may be, shall set forth on such Bond (1) the date of such authentication and (2) in the case of a Bond bearing interest at a Variable Term Rate, such Variable Term Rate, the day next succeeding the last day of the applicable

Variable Term Segment, the number of days comprising such Variable Term Segment and the amount of interest to accrue during such Variable Term Segment.

Unless the City shall otherwise direct with the advice and consent of the Borrower, the Tender Agent shall serve as co-authenticating agent for the Bonds.

Section 2.03. Transfer and Exchange of Bonds. Registration of any Bond may, in accordance with the terms of this Indenture, be transferred, upon the books of the Registrar required to be kept pursuant to the provisions of Section 2.04, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by a written instrument of transfer in a form approved by the Registrar, duly executed. Whenever any Bond shall be surrendered for registration of transfer, the City shall execute and the Registrar shall authenticate and deliver a new Bond or Bonds of the same tenor of Authorized Denominations. No registration of transfer of Bonds shall be required to be made during the period after any Record Date and prior to the related Interest Payment Date or during the period of seven (7) Business Days next preceding the date on which the Trustee gives any notice of redemption, nor shall any registration of transfer of Bonds called for redemption be required.

Bonds may be exchanged at the principal office of the Registrar for a like aggregate principal amount of Bonds of the same tenor of Authorized Denominations. The Registrar shall require the payment by the Bondholder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there shall be no other charge to any Bondholders for any such exchange. Except with respect to Bonds purchased pursuant to Section 2.01(e), no exchange of Bonds shall be required to be made during the period after any Record Date and prior to the related Interest Payment Date or during the period of seven (7) Business Days next preceding the date on which the Trustee gives notice of redemption, nor shall any exchange of Bonds called for redemption be required.

Section 2.04. Bond Register. The Registrar will keep or cause to be kept at its principal office sufficient books for the registration and the registration of transfer of the Bonds, which shall at all times be open to inspection by the City, the Trustee and the Borrower; and, upon presentation for such purpose, the Registrar shall, under such reasonable regulations as it may prescribe, register the transfer or cause to be registered the transfer, on said books, Bonds as hereinbefore provided.

Section 2.05. Temporary Bonds. The Bonds may be issued initially in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such

denominations as may be determined by the City and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the City and be authenticated and registered by the Registrar upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds, it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the principal office of the Registrar, and the Registrar shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of like tenor in Authorized Denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

Section 2.06. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the City, upon the request and at the expense of the holder of said Bond, shall execute, and the Registrar shall thereupon authenticate and deliver, a new Bond of like tenor and number in exchange and substitution for the Bond so mutilated, but only upon surrender to the Registrar of the Bonds so mutilated. Every mutilated Bond so surrendered to the Registrar shall be cancelled by it and destroyed and, upon the written request of the City, a certificate evidencing such destruction shall be delivered to the City. If any Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City, the Borrower and the Registrar, and if such evidence be satisfactory to them and indemnity satisfactory to them shall be given, the City, at the expense of the holder, shall execute, and the Registrar shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond the Registrar may pay the same without surrender thereof). The City may require payment of a reasonable fee for each new Bond issued under this Section and payment of the expenses which may be incurred by the City and the Registrar. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

Section 2.07. Disposition of Cancelled Bonds. When and as paid in full, all Bonds, if any, shall be delivered to the Trustee and shall forthwith be cancelled and destroyed by the Trustee. If requested in writing by the City, the Trustee shall deliver a certificate evidencing such destruction to the City.

ARTICLE III

ISSUANCE OF BONDS

Section 3.01. Authentication and Delivery of Bonds. Forthwith upon the execution and delivery of this Indenture, upon the execution of the Bonds by the City and delivery thereof to the Registrar, as hereinabove provided, and without any further action on the part of the City, the Registrar shall authenticate the Bonds in an aggregate principal amount of fifty million and no/100 dollars ($50,000,000) and shall deliver the Bonds to or upon the Written Order of the City.

Section 3.02. Application of Proceeds of Bonds. The proceeds received by the City from the sale of the Bonds shall be deposited with the Trustee, who shall forthwith set aside such proceeds into the Construction Fund which Construction Fund the Trustee shall establish and maintain as further provided in Section 3.03 hereof.

Section 3.03. Construction Fund. The Trustee does hereby establish the Construction Fund to be designated the "City of Big Bear Lake Industrial Development Revenue Bonds (Southwest Gas Corporation Project) 1993 Series A Construction Fund" (the "Construction Fund"). The monies in the Construction Fund shall be held by the Trustee in trust and applied to the payment of the Cost of the Project.

Before each payment is made from the Construction Fund by the Trustee, there shall be filed with the Trustee a requisition conforming with the requirements of this Section and Section 3.3 of the Agreement, in substantially the same form as set forth in Exhibit B to the Agreement, stating with respect to each payment to be made:

(1) the requisition number;

(2) the name and address of the person to whom payment is due;

(3) the purpose for which such payment is to be made;

(4) the amount to be paid;

(5) that each obligation mentioned therein has been properly incurred and is a proper charge against the Construction Fund;

(6) that none of the items for which payment is requested has been previously reimbursed from the Construction Fund;

(7) that each item for which payment is requested is or was necessary in connection with the acquisition, construction, installation or financing of the Project; and

(8) that 100% of the amount requisitioned, together with all amounts requisitioned to date, in the aggregate represents a Qualifying Cost as defined in the Tax Certificate (excluding costs of issuance of the Bonds).

Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon receipt of each such requisition, signed by an Authorized Borrower Representative, the Trustee shall pay the amount set forth therein as directed by the terms thereof.

The Construction Fund shall be closed upon the earlier of: (a) the disbursement of all moneys held therein or (b) receipt by the Trustee of a certificate conforming with the requirements of Section 3.4 of the Agreement. In the event that the Trustee shall receive a certificate described in clause (b) of the immediate proceeding sentence, and after payment of costs payable from the Construction Fund or provision satisfactory to the Trustee having been made for payment of such costs not yet due as provided in such certificate, the Trustee shall transfer any remaining balance in the Construction Fund into a separate account within the Bond Fund, which the Trustee shall establish and hold in trust, and which shall be entitled the "Surplus Account." There shall also be deposited in the Surplus Account amounts received from the Borrower pursuant to Section 3.4 of the Agreement for the purpose of redeeming Bonds in the next largest principal amount divisible by Authorized Denominations. The monies in the Surplus Account shall be used and applied (unless some other application of such monies is requested by the Borrower and would not, in the opinion of Bond Counsel, cause interest on the Bonds to become no longer Tax-exempt) to the redemption of Bonds in Authorized Denominations, to the maximum degree permissible, and at the earliest possible dates at which the Bonds can be redeemed without payment of premium pursuant to this Indenture. Notwithstanding Section 5.04, the monies in the Surplus Account shall be invested at the written direction of the Borrower in Investment Securities having a non-variable yield no higher than the yield on the Bonds (unless in the opinion of Bond Counsel investment at a variable or higher non-variable yield would not cause interest on the Bonds to become no longer Tax-exempt), and all such investment income shall be deposited in the Surplus Account and expended or reinvested as provided above.

In the event of redemption of all the Bonds pursuant to Section 4.01 hereof or an Event of Default which causes acceleration of the Bonds, any monies then remaining in the Construction Fund shall be transferred to the Bond Fund and all

monies in the Bond Fund shall be used to pay the principal of the Bonds.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.01. Redemption of Bonds. The Bonds are subject to redemption if and to the extent the Borrower is entitled or required to make and makes a prepayment pursuant to Article VII of the Agreement. The Trustee shall not give notice of any optional redemption under Section 4.01(a) hereof unless the Borrower has so directed in accordance with Section 7.5 of the Agreement and the Trustee then holds Available Amounts on deposit in the Bond Fund sufficient to pay, and set aside for the payment of, all amounts due on such redemption, or if the Credit Facility then in effect may be drawn upon to pay such amounts and is in an amount sufficient to pay any premium plus the other amounts required to be paid in connection with such redemption. In the event of a failure by the Borrower to give a notice of mandatory prepayment under such Section 7.5, such notice may be given by the City, the Trustee or any holder or holders of ten percent (10%) or more in aggregate principal amount of Bonds Outstanding.

The Bonds shall be redeemed upon the following terms:

(a) Redemption Upon Optional Prepayment. (1) The Bonds shall be redeemed in whole at any time at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date upon receipt by the Trustee of a written notice from the Borrower stating that the Board of Directors of the Borrower has determined in good faith, by resolution of such Board, that any of the following events has occurred within the preceding one hundred eighty (180) days and that the Borrower therefore intends to exercise its option to prepay the payments due under the Agreement in whole pursuant to Section 7.2 of the Agreement and thereby effect the redemption of Bonds in whole:

(A) Changes in economic availability of raw materials, operating supplies or facilities necessary to operate all or a substantial part of the Project or technological or other changes which make the continued operation of the Project or such substantial portion uneconomical, in the opinion of the Borrower, shall have occurred and shall have resulted in a cessation of all or substantially all of its normal operations of the Project.

(B) Unreasonable burdens or excessive liabilities shall have been imposed upon the City or the Borrower affecting all or a substantial part of the Project, including without limitation federal, state or other ad

valorem, property, income or other taxes not being imposed on the date of the Agreement.

(C) All or substantially all of the property of the Borrower shall be transferred or sold to any corporation other than an affiliate of the Borrower or the Borrower shall be consolidated with or merged into a corporation other than an affiliate of the Borrower in such manner that the Borrower is not the surviving corporation.

(2) The Bonds shall be subject to redemption upon prepayment of the Repayment Installments at the option of the Borrower, in whole, or in part by lot, prior to their maturity dates, as follows:

(A) During any Variable Term Rate Period, each Bond shall be subject to such redemption on the day next succeeding the last day of each Variable Term Segment for such Bond at a redemption price equal to 100% of the principal amount thereof.

(B) During any Daily Rate Period or Weekly Rate Period, the Bonds shall be subject to such redemption on any Business Day at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date of redemption.

(C) During any Term Rate Period and on the day next succeeding the last day of each such Rate Period, the Bonds shall be subject to such redemption during the periods specified below, in whole at any time or in part from time to time, at the redemption prices (expressed as percentages of principal amount) hereinafter indicated plus accrued interest, if any, to the redemption date:

Length of Term Rate Period	Redemption Dates and Prices
Greater than 15 years	At any time on or after the first day of the calendar month following the tenth anniversary of the effective date at 102% declining 1% annually to 100%
Greater than 10 and less than or equal to 15 years	At any time on or after the first day of the calendar month following the tenth anniversary of the effective date at 101.5% declining 0.75% annually to 100%

Greater than 7 and less than or equal to 10 years	At any time on or after the first day of the calendar month following the seventh anniversary of the effective date at 101.5% declining 0.5% annually to 100%
Greater than 4 and less than or equal to 7 years	At any time on or after the first day of the calendar month following the fourth anniversary of the effective date at 101% declining 0.5% annually to 100%
Greater than 2 and less than or equal to 4 years	At any time on or after the first day of the calendar month following the second anniversary of the effective date at 101.5% declining 0.25% each six months thereafter to 100%
Greater than 1 and less than or equal to 2 years	At any time on or after first day of the calendar month following the first anniversary of the effective date at 100.25%, declining 0.25% each six months thereafter to 100%
Less than or equal to 1 year	Not redeemable

(3) During any Term Rate Period the Bonds shall be subject to redemption in whole, or in part by lot, on any date prior to the applicable first date for optional redemption as set forth in Section 4.01(a)(2)(C) above, at a redemption price equal to the applicable redemption price that would be in effect on such first date for optional redemption, plus interest accrued thereon to the date fixed for redemption, if the Borrower delivers to the Trustee, within one hundred eighty (180) days after the Borrower has made the determination referred to in clause (A) or (B) below, a written notice to the effect that either:

(A) (I) the Borrower has determined that some or all of the interest payable under the Agreement for any sixty (60) days (which need not be consecutive) within any consecutive twenty-four (24) month period is not or will not be deductible, in whole or in part, for federal income tax purposes by reason of Section 150(b) of the Code (or would not be deductible unless some or all of the Bonds are redeemed) due to a change in use of the Project or any portion thereof, and (II) the Borrower will not claim deductions for such interest on its federal income tax returns; or

(B) (I) the Borrower has determined that there is "substantial authority" (within the meaning of

Section 6662(d)(2)(B)(i) of the Code) to support the position that Section 150(b) of the Code will not prevent interest payable under the Agreement for any sixty (60) days (which need not be consecutive) within any consecutive twenty-four (24) month period from being deductible, in whole or in part, for federal income tax purposes, and (II) the Borrower after reasonable effort has been unable to obtain an opinion of independent counsel that it is more likely than not that Section 150 of the Code will not prevent deductions for such interest expense.

In the case of a redemption pursuant to this Section 4.01(a)(3), the Borrower may only direct the Trustee to redeem such principal amount of Bonds as the Borrower determines is necessary to assure that the Borrower retains its right to all such deductions otherwise allowable or, if a partial redemption will not enable the Borrower to retain the right to deduct such interest, the Borrower may direct the Trustee to redeem all the Outstanding Bonds or any portion thereof.

(4) With respect to any Term Rate Period the Borrower may specify in the notice required by Section 2.01(c)(iv)(B) hereof redemption provisions, prices and periods other than those set forth above (including that there be no such optional redemption); provided, however, that such notice shall be accompanied by an opinion of Bond Counsel addressed to the City to the effect that such changes (i) are authorized or permitted by the Law and this Indenture, and (ii) will not adversely affect any exemption of the interest on the Bonds from federal income taxation.

(b) Redemption Upon Mandatory Prepayment. The Bonds shall be subject to redemption from amounts which are required to be prepaid by the Borrower under Section 7.3 of the Agreement, as set forth below. In each case, the Trustee shall give notice of such redemption as provided in Section 4.03 hereof.

(1) The Bonds shall be redeemed in whole on any date at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date upon the occurrence of a Determination of Taxability;provided, however, that all Bonds shall be redeemed upon such event unless, in the opinion of Bond Counsel delivered to the Trustee, the redemption of a specified portion of the Bonds Outstanding would have the result that interest payable on the Bonds remaining Outstanding after such redemption would be Tax-exempt to any holder of a Bond (other than a holder who is a "substantial user" of the Project or the Clark County Project or a "related person" within the meaning of Section 147(a) of the Code), and in such event the Bonds shall be redeemed (in Authorized Denominations) in such amount as Bond Counsel in such opinion shall have determined is necessary to accomplish that result.

(2) The Bonds shall be redeemed in whole at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, upon the acceleration of payments due under the Agreement following an "Event of Default" thereunder.

(3) The Bonds shall be redeemed in part on any date after the Completion Date at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date to the extent of amounts on deposit in the Surplus Account after the Completion Date.

Section 4.02. Selection of Bonds for Redemption. If less than all of the Bonds are called for redemption, the Trustee shall select the Bonds or any given portion thereof to be redeemed, from the outstanding Bonds or such given portion thereof not previously called for redemption, by lot. For the purpose of any such selection the Trustee shall assign a separate number for each minimum Authorized Denomination of each Bond of a denomination of more than such minimum; provided that following any such selection, both the portion of such Bond to be redeemed and the portion remaining shall be in Authorized Denominations. The Trustee shall promptly notify the City and the Borrower in writing of the numbers of the Bonds or portions thereof so selected for redemption.

Section 4.03. Notice of Redemption. The Trustee, for and on behalf of the City, shall give Notice of any redemption by Mail, postage prepaid, not less than fifteen (15) nor more than sixty (60) days prior to the redemption date, to (i) the registered owner of such Bond at the address shown on the registration books of the Registrar on the date such notice is mailed; (ii) the Securities Depositories; and (iii) one or more Information Services. Notice of redemption to the Securities Depositories and the Information Services shall be given by telecopy confirmed by first-class mail. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds to be redeemed, the redemption date, the redemption price, the place of redemption (including the name and appropriate address or addresses of the Paying Agent), the source of the funds to be used for such redemption, the principal amount, the CUSIP number (if any) of the maturity and, if less than all, the distinctive certificate numbers of the Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that the interest on the Bonds designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Bonds the principal amount thereof to be redeemed, interest accrued thereon, if any, to the redemption date and the premium, if any, thereon (such premium to be specified) and shall require that such Bonds be then surrendered at the address or addresses of the Paying Agent specified in the redemption notice. Notwithstanding the

foregoing, failure by the Trustee to give notice pursuant to this paragraph to any one or more of the Information Services or Securities Depositories or the insufficiency of any such notices shall not affect the sufficiency of the proceedings for redemption. Failure to mail the notices required by this paragraph to any registered owner of any Bonds designated for redemption, or any defect in any notice so mailed, shall not affect the validity of the proceedings for redemption of any other Bonds and shall not extend the period for making elections or in any way change the rights of the holders of the Bonds to elect to have their Bonds purchased as provided herein.

If upon the expiration of thirty (30) days succeeding any redemption date, any Bonds so called for redemption shall not have been presented to the Trustee for payment, the Trustee shall no later than sixty (60) days following such redemption date send Notice by Mail to the holder of each Bond not so presented.

Section 4.04. Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Registrar shall exchange the Bond redeemed for a new Bond of like tenor and in an Authorized Denomination without charge to the Holder in the principal amount of the portion of the Bond not redeemed. The City and the Trustee shall be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.

Section 4.05. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the Trustee, the Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Bonds so called for redemption shall cease to accrue, said Bonds shall cease to be entitled to any lien, benefit or security under this Indenture, and the holders of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof, without interest accrued on any funds held after the redemption date to pay such redemption price.

All Bonds fully redeemed pursuant to the provisions of this Article IV shall be cancelled upon surrender thereof and destroyed by the Registrar, which shall, upon the written request of the City, deliver to the City a certificate evidencing such destruction.

ARTICLE V

REVENUES

Section 5.01. Pledge of Revenues. All of the Revenues and any Credit Facility are hereby irrevocably pledged to the punctual payment of the principal of and interest and premium, if any, on the Bonds, and Revenues shall not be used for any other purpose while any of the Bonds remain outstanding. Said pledge shall constitute a first and exclusive lien on the Revenues and any Credit Facility for the payment of the Bonds in accordance with the terms thereof.

All Revenues and any Credit Facility shall be held in trust for the benefit of the holders from time to time of the Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes hereinafter in this Article V set forth.

Neither the faith and credit nor the taxing power of the State of California or the City is pledged to the payment of the principal of, premium, if any, or interest on the Bonds, nor is the State of California or the City in any manner obligated to make any appropriation for payment of the Bonds. The Bonds do not constitute a debt or liability of the State of California, the City or any public agency and are payable solely from the sources identified in this Indenture. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any public agency to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment.

Section 5.02. Bond Fund. Upon the receipt thereof, the Trustee shall deposit all accrued interest, if any, paid at the sale of the Bonds and all Revenues in the "City of Big Bear Lake IDRB (Southwest Gas Corporation Project) 1993 Series A Bond Fund" (herein called the "Bond Fund"), which the Trustee shall establish and maintain and hold in trust, and which shall be disbursed and applied only as hereinafter authorized. Except as provided below, moneys in the Bond Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Bonds as the same shall become due and payable at maturity, upon redemption or otherwise.

The Trustee shall deposit in the Bond Fund from time to time, upon receipt thereof, (i) all amounts received by the Trustee pursuant to any Credit Facility as provided in Section 5.07 hereof; (ii) any income received from the investment of moneys on deposit in the Bond Fund; (iii) amounts transferred to the Bond Fund from the Construction Fund pursuant to Section 3.03 hereof; and (iv) any other Revenues, including insurance proceeds, condemnation awards and other prepayment amounts received under the Agreement from or for the account of the Borrower. Available Amounts shall not be commingled with other

moneys in the Bond Fund and the Trustee shall set up separate sub-accounts in the Bond Fund for such amounts of each type. Amounts transferred from the Construction Fund following an Event of Default hereunder or under the Agreement shall be used first to pay amounts due on the Bonds and then to reimburse the Credit Provider for any such amounts received pursuant to the Credit Facility.

Except as provided in this Section, Sections 5.06, 5.07, 6.06 and 10.03, moneys in the Bond Fund shall be used solely for the payment of the principal of and premium, if any, and interest on the Bonds as the same shall become due, whether at maturity or upon redemption or acceleration or otherwise. In making such payments, the Trustee shall (a) first use Available Amounts held hereunder, except amounts received pursuant to the Credit Facility; (b) then use amounts received by the Trustee under the Credit Facility; and (c) then use any other Revenues received by the Trustee.

The stated amount of the Letter of Credit shall be unavailable for the payment of principal of and interest on Credit Provider Bonds, it being the intent of the parties hereto that, so long as the Letter of Credit is in effect, principal of and interest on Credit Provider Bonds shall be payable solely from the following sources, in the following priority: (1) proceeds of the remarketing of Credit Provider Bonds paid by the purchasers thereof, (2) amounts paid by the Borrower to the Trustee for deposit in the Bond Fund, and (3) any other Revenues available therefor.

So long as no Event of Default (or any event which would be an Event of Default hereunder with the passage of time or the giving of notice) exists hereunder, on the fifth day after each Interest Payment Date, the Trustee shall return to the Borrower (free and clear of the pledge and lien of this Indenture) any moneys then on deposit in the Bond Fund (except the Surplus Account) or shall deposit such funds in the Rebate Fund if so instructed by the Borrower.

Section 5.03. Trustee Authorized to Take Actions Under the Agreement. The City hereby authorizes and directs the Trustee, and the Trustee hereby agrees, to take such actions as the Trustee, in its sole and absolute discretion, deems necessary to enforce the Borrower's obligation under the Agreement to make timely payment of principal of and interest on the Bonds to the extent proceeds of drawings under any Credit Facility, Bond proceeds and other moneys in the Bond Fund are not available for such payment in accordance with the provisions of Section 5.02 hereof.

Section 5.04. Investment of Moneys. Subject to Sections 3.03 and 6.06 hereof, any moneys in any of the funds and accounts to be established by the Trustee pursuant to this Indenture shall be invested upon the written direction of the

Borrower, by the Trustee, if and to the extent then permitted by law, in Investment Securities; provided, however, that any such moneys constituting proceeds of a drawing under the Credit Facility shall be held uninvested. In the absence of such direction, the Trustee shall invest solely in units of a money market portfolio restricted to obligations issued by, or guaranteed by the full faith and credit of, the United States of America, or repurchase agreements collateralized by such obligations. Moneys in any fund or account (other than moneys constituting proceeds of a drawing under the Credit Facility, which shall be held uninvested) shall be invested in Investment Securities with respect to which payments of principal thereof and interest thereon are scheduled to be paid or are otherwise payable (including Investment Securities payable at the option of the holder) not later than the date on which it is estimated that such moneys will be required by the Trustee. Available Amounts held in the Bond Fund shall be invested only in Government Obligations maturing or subject to payment at par upon demand of the holder thereof within 30 days after the acquisition of any such investment and in any event not later than the date on which it is estimated that such moneys will be required by the Trustee.

Except for purposes of Section 6.06, for the purpose of determining the amount in any fund, all Investment Securities credited to such fund shall be valued at the lesser of cost (which shall be (1) measured exclusive of accrued interest after the first payment of interest following purchase and (2) ratably increased over time by the amortization of any difference between the initial purchase price, excluding accrued interest but including commissions, and the par value) or par value (plus, prior to the first payment of interest following purchase, the amount of any accrued interest paid as part of the purchase price).

Any interest, profit or loss on such investments shall be credited or charged to the respective funds from which such investments are made. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss resulting from such investment. Unless otherwise directed by the Borrower, the Trustee may make any investment permitted under this Section 5.04 through or with its own commercial banking or investment departments.

Section 5.05. Assignment to Trustee; Enforcement of Obligations. (a) The City hereby transfers, assigns and sets over to the Trustee all of the Revenues and any and all rights and privileges it has under the Agreement, except (i) the City's rights to receive any notices under this Indenture or the Agreement, (ii) the City's right to receive payments, if any, with respect to fees, expenses and indemnification and certain other purposes under Sections 4.2(c), 4.2(e), 6.3, 8.2 and 8.3 of the Agreement and (iii) the City's rights to give approvals or

consents pursuant to the Agreement, but including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security interest, and any Revenues collected or received by the City shall be deemed to be held, and to have been collected or received, by the City as the agent of the Trustee, and shall forthwith be paid by the City to the Trustee. The Trustee also shall be entitled to take all steps, actions and proceedings reasonably necessary in its judgment (1) to enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under, the Agreement, any Credit Facility and any other security agreement with respect to the Project or the Bonds, and (2) to assure compliance with all covenants, agreements and conditions on the part of the City contained in this Indenture with respect to the Revenues.

Section 5.06. Repayment to Borrower. When there are no longer any Bonds outstanding or provision for payment of the Bonds has been made in accordance with Article X hereof, and all fees, charges and expenses of the Trustee, the Registrar, the Tender Agent, the Remarketing Agent and any paying agents have been paid or provided for, payment of the full amount owing the United States Government, as determined under Section 5.6 of the Agreement, Section 6.06 hereof and the Tax Certificate, all expenses of the City relating to the Project and this Indenture have been paid or provided for, and all other amounts payable hereunder and under the Agreement have been paid, and this Indenture has been discharged and satisfied, the Trustee shall pay to the Borrower any amounts remaining in any fund established and held hereunder.

Section 5.07. Credit Facility; Credit Provider Bonds. (a) The Trustee shall accept the Letter of Credit as the initial Credit Facility hereunder. The Trustee acknowledges the right of the Borrower at any time to terminate any Credit Facility and, if the Borrower so elects, to provide a substitute Credit Facility with respect to the Bonds; provided, that no such termination or substitution may be made with respect to any Bond during any Term Rate Period or Variable Term Segment with respect to such Bond. If there shall have been delivered to the City and the Trustee (i) a Credit Facility other than the Letter of Credit and (ii) an opinion of Bond Counsel to the effect that the delivery of such Credit Facility to the Trustee is permitted under the Law and the Agreement and complies with the terms of the Agreement and the Indenture and that the delivery of such Credit Facility will not adversely affect the Tax-Exempt status of interest on the Bonds, then the Trustee shall accept such Credit Facility and, if so directed by the Borrower, upon the effective date of such Credit Facility promptly surrender the Credit Facility theretofore in effect in accordance with the respective terms thereof for cancellation. In the event that the Borrower elects to terminate a Credit Facility or to provide a substitute Credit Facility, the Bonds shall be subject to mandatory tender unless the Trustee shall have received timely written confirmation from each Rating

Agency that such Rating Agency's then current rating on the Bonds will not be lowered or withdrawn as a result of such termination or provision, all as provided in Section 2.01(e)(1)(C) hereof. If at any time there shall cease to be any Bonds outstanding hereunder, or a Credit Facility shall be terminated pursuant to its terms, the Trustee shall promptly surrender the Credit Facility in accordance with the terms of the Credit Facility for cancellation. The Trustee shall comply with the procedures set forth in the Credit Facility relating to the termination thereof.

(b) In the case of a Credit Facility in the form of a letter of credit, the Trustee shall draw on the Credit Facility subject to and in accordance with its terms, in order to receive payment thereunder not later than the time payment is due on the Bonds on the following dates in the following amounts:

(i) On each Interest Payment Date, in an amount which, together with Available Amounts in the Bond Fund, will be sufficient to pay all interest due and payable on the outstanding Bonds on such Interest Payment Date;

(ii) On any date fixed for payment or redemption of Bonds in part, in an amount which, together with Available Amounts in the Bond Fund (including amounts drawn pursuant to paragraph (a) above), will be sufficient to pay the amount due on such Bonds, including accrued interest;

(iii) On the date fixed for payment of the Bonds in connection with any declaration of the acceleration of the maturity of the Bonds following an Event of Default, as provided in Section 7.01 hereof, in an amount which, together with Available Amounts in the Bond Fund, will be sufficient to pay all principal and interest due on the Bonds as a result of such declaration on the date fixed for such payment;

(iv) On each Purchase Date, in an amount sufficient to pay the purchase price of any Bonds tendered or deemed tendered pursuant to this Indenture and for which such purchase price has not been received upon the remarketing of such Bonds; and

(v) On the final maturity or redemption date of the Bonds, in an amount which, together with Available Amounts in the Bond Fund (including amounts drawn pursuant to paragraph (a) above), will be sufficient to pay the principal and interest due on all outstanding Bonds on such final maturity or redemption date.

Each such drawing shall be made not later than the time required by the Credit Facility in order to receive payment thereunder not later than the time payment of the amount of such drawing is required to be made to the holders of the Bonds pursuant to this Indenture and the Tender Agreement. The Trustee shall give

notice of each such drawing to the Borrower at the time of each draw. The proceeds of each such drawing shall be used in the order of priority established by Section 5.02 hereof. The Trustee shall comply with all provisions of the Credit Facility in order to realize upon any drawing thereunder, and will not draw upon the Credit Facility any amounts for payment of Credit Provider Bonds or Bonds registered in the name of the City or the Borrower or known by the Trustee to be registered in the name of any nominee of the City or the Borrower unless the Credit Facility specifically permits such drawing.

(c) Any Bonds purchased with a drawing under a Credit Facility pursuant to Section 5.07(b)(iv) hereof shall be registered in the name of the Credit Provider or its nominee (or such other names as the Credit Provider shall direct) and delivered to the Credit Provider in accordance with the terms of the applicable Credit Agreement; provided, that if such Bonds are then registered in the name of DTC or its Nominee pursuant to Section 2.01(h) hereof, the Trustee shall immediately upon making any draw on a Credit Facility pursuant to Section 5.07(b)(iv) hereof notify the Tender Agent. Upon receipt of such notice, the Tender Agent shall direct DTC to cause any Bonds purchased with the proceeds of such draw to be transferred to the Tender Agent's account at DTC, and such Bonds shall be held on the records of the Tender Agent in the name of or for the account of the Credit Provider or its nominee (or such other names as the Credit Provider shall direct).

(d) Credit Provider Bonds shall bear interest at the Reimbursement Rate in accordance with the first paragraph of Section 2.01(c) hereof.

(e) Credit Provider Bonds shall be remarketed by the Remarketing Agent prior to any other Bonds tendered for purchase hereunder, unless the Credit Provider shall otherwise direct the Remarketing Agent in writing, and shall be remarketed in accordance with the terms of the Remarketing Agreement. Upon (i) receipt by the Trustee and the Tender Agent of written notification from the Credit Provider that the Credit Facility (if any is then in effect) has been fully reinstated with respect to principal and interest and (ii) release by the Credit Provider of any Credit Provider Bonds which the Remarketing Agent has remarketed, such Bonds shall be made available to the purchasers thereof and shall no longer constitute Credit Provider Bonds for purposes of this Indenture. The proceeds of any remarketing of Credit Provider Bonds (including interest, if any, accrued at the Reimbursement Rate) shall be paid to the Credit Provider on such remarketing date in immediately available funds.

(f) Each of the Trustee and the Tender Agent agrees that it will, immediately upon receipt, send to the Credit Provider (by telephonic or electronic transmission capable of making a written record) a copy of every notice received by it hereunder with respect to any of the Credit Provider Bonds.

(g) Notwithstanding anything to the contrary herein or in the Bonds, all obligations of the Borrower under or in connection with any Credit Agreement (including reimbursement obligations of the Borrower to any participating credit providers with respect to a Credit Facility) shall be governed by the terms of such Credit Agreement.

ARTICLE VI

COVENANTS OF THE CITY

Section 6.01. Payment of Principal and Interest. The City shall punctually pay, but only out of Revenues as herein provided, the principal and the interest (and premium, if any) to become due in respect of every Bond issued hereunder at the times and places and in the manner provided herein and in the Bonds according to the true intent and meaning thereof. All such payments shall be made by the Trustee as provided in Section 2.01. When and as paid in full, all Bonds, if any, shall be delivered to the Trustee, shall forthwith be cancelled and destroyed by the Trustee which, upon the written request of the City, shall deliver a certificate evidencing such destruction to the City.

Section 6.02. Extension or Funding of Claims for Interest. In order to prevent any accumulation of claims for interest after maturity, the City shall not, directly or indirectly, extend or assent to the extension of the time for the payment of any claim for interest on any of the Bonds, and shall not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding such claims or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the City, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then outstanding and of all claims for interest which shall not have been so extended or funded.

Section 6.03. Paying Agents. The Borrower, with the written approval of the Trustee and the City, may appoint and at all times have one or more Paying Agents (which shall meet the qualifications of the Trustee set forth in Section 8.07 hereof) in such place or places as the Borrower may designate, for the payment of the principal of, and the interest (and premium, if any) on, the Bonds. All provisions of Article VIII hereof which apply to the Trustee shall also apply to any Paying Agent appointed hereunder. It shall be the duty of the Trustee to make such arrangements with any such paying agent as may be necessary to assure, to the extent of the moneys held by the Trustee for such payment, the prompt payment of the principal of and interest and premium, if any, on the Bonds presented at either place of

payment. The Paying Agent initially appointed hereunder is the Trustee.

Section 6.04. Preservation of Revenues. The City shall not waive any provision of the Agreement or take any action to interfere with or impair the pledge and assignment hereunder of Revenues and the assignment to the Trustee of rights under the Agreement, or the Trustee's enforcement of any rights thereunder, without the prior written consent of the Trustee. The Trustee may give such written consent, and may itself take any such action or consent to an amendment or modification to the Agreement or to any other document, instrument or agreement relating to the security for the Bonds, only in accordance with the provisions of Article IX hereof.

Section 6.05. Compliance with Indenture. The City shall not issue, or permit to be issued, any Bonds secured or payable in any manner out of Revenues in any manner other than in accordance with the provisions of this Indenture, and shall not suffer or permit any default to occur under this Indenture, but shall faithfully observe and perform all the covenants, conditions and requirements hereof.

Section 6.06. Arbitrage Covenants. (a) The City covenants with all persons who hold or at any time held Bonds that the City will not directly or indirectly use the proceeds of any of the Bonds or any other funds of the City or, to the extent within its control, permit the use of the proceeds of any of the Bonds or any other funds of the City or take or omit to take any other action which will cause any of the Bonds to be "arbitrage bonds" or otherwise subject to federal income taxation by reason of Sections 103 and 141 through 150 of the Code and any applicable regulations promulgated thereunder. To that end the City covenants to comply with all covenants set forth in the Tax Certificate, which is incorporated herein by reference.

(b) Notwithstanding any provision of this Indenture, including in particular Article X hereof, the obligation to comply with all requirements of this Section 6.06, Section 5.6 of the Agreement and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

Section 6.07. Other Liens. So long as any Bonds are outstanding, the City shall not create or suffer to be created any pledge, lien or charge of any type whatsoever upon all or any part of the Trust Estate, other than the lien of this Indenture.

Section 6.08. Further Assurances. Whenever and so often as requested so to do by the Trustee, the City shall promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the

Bondholders all of the rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by this Indenture and to perfect and maintain as perfected such rights, interests, powers, benefits, privileges and advantages.

ARTICLE VII

DEFAULT

Section 7.01. Events of Default; Acceleration; Waiver of Default. Each of the following events shall constitute an "Event of Default" hereunder:

(a) Failure to make payment of any installment of interest upon any Bond when the same shall have become due and payable;

(b) Failure to make due and punctual payment of the principal of and premium, if any, on any Bond at the stated maturity thereof, or upon proceedings for redemption thereof or upon the maturity thereof by declaration, or failure by the Borrower to make any payment necessary to purchase Bonds tendered for purchase in accordance with Section 2.01(d) or (e) hereof;

(c) Default by the City in the performance or observance of any other of the covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, and the continuance of such default for a period of ninety (90) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the City, the Borrower and the Credit Provider by the Trustee, or to the City, the Borrower, the Credit Provider and the Trustee by the holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time outstanding.

No default specified in (c) above shall constitute an Event of Default unless the City, the Borrower or the Credit Provider shall have failed to correct such default within the applicable 90-day period; provided, however, that if the default shall be such that it can be corrected, but cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the City, the Borrower or the Credit Provider within the applicable period and diligently pursued until the default is corrected. With regard to any alleged default concerning which notice is given to the Borrower or the Credit Provider under the provisions of this Section, the City hereby grants the Borrower and the Credit Provider full authority for account of the City to perform any covenant or obligation the non-performance of which is alleged in said notice to constitute a default in the name and stead of the City with full power to do any and all things and acts to the same extent

that the City could do and perform any such things and acts and with power of substitution.

Upon the occurrence and continuation of an Event of Default hereunder, the Trustee may, and upon the written request of the Credit Provider or the holders of not less than 25% in aggregate principal amount of Bonds then outstanding, shall by notice in writing delivered to the Borrower with copies of such notice being sent to the City, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable. Notwithstanding the foregoing, the Trustee shall not be required to take any action upon the occurrence and continuation of an Event of Default under Section 7.01(c) above until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. After such declaration of acceleration the Trustee shall immediately take such actions as necessary to realize moneys under any Credit Facility and shall declare all indebtedness payable under Section 4.2(a) of the Agreement to be immediately due and payable in accordance with Section 6.2 of the Agreement and may exercise and enforce such rights as exist under the Agreement.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, there shall have been deposited with the Trustee a sum which, together with any other amounts then held in the Bond Fund, is sufficient to pay all the principal of the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal as provided in the Agreement, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the holders of at least a majority in aggregate principal amount of the Bonds then outstanding, by written notice to the City and to the Trustee, may, on behalf of the holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Section 7.02. Institution of Legal Proceedings by Trustee. In addition, if one or more of the Events of Default shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding

and upon being indemnified to its satisfaction therefor shall, proceed to protect or enforce its rights or the rights of the holders of Bonds under the Law or under this Indenture, by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties hereunder.

Section 7.03. Application of Moneys Collected by Trustee. Any moneys collected by the Trustee on or after the occurrence of an Event of Default shall be applied in the order following, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal (or premium, if any) or interest, upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First: To the payment of costs and expenses of collection, just and reasonable compensation to the Trustee for its own services and for the services of counsel, agents and employees by it properly engaged and employed, and all other expenses and liabilities incurred, and for advances made pursuant to the provisions of this Indenture with interest on all such advances at the rate then borne by the Bonds; provided, that Available Amounts shall not be so applied when a Credit Facility in the form of a letter of credit is then in effect.

Second: In case the principal of none of the Bonds shall have become due and remains unpaid, to the payment of interest in default in the order of the maturity thereof, such payments to be made ratably and proportionately to the persons entitled thereto without discrimination or preference, except as specified in Section 6.02, and provided that no payment of interest shall be made with respect to any Bonds registered in the name of the City, the Borrower or the Credit Provider or known by the Trustee to be registered in the name of any nominee of the City, the Borrower or the Credit Provider, until interest due on all Bonds not so registered shall have been paid.

Third: In case the principal of any of the Bonds shall have become due by declaration or otherwise and remains unpaid, first to the payment of principal of all Bonds then due and unpaid, then to the payment of interest in default in the order of maturity thereof, and then to the payment of the premium thereon, if any and then to the payment of interest on the overdue principal and interest at the rate then borne by the Bonds; in every instance such payment to be made

ratably to the persons entitled thereto without discrimination or preference, except as specified in Section 6.02, and provided that no payment of principal or premium or interest shall be made with respect to any Bonds registered in the name of the City, the Borrower or the Credit Provider or known by the Trustee to be registered in the name of any nominee of the City, the Borrower or the Credit Provider, until all amounts due on all Bonds not so registered have been paid.

Fourth: To the Credit Provider as reimbursement for amounts drawn under the Credit Facility, as certified by the Credit Provider to the Trustee.

Section 7.04. Effect of Delay or Omission to Pursue Remedy. No delay or omission of the Trustee or of any holder of Bonds to exercise any right or power arising from any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given by this Article VII to the Trustee or to the holders of Bonds may be exercised from time to time and as often as shall be deemed expedient. In case the Trustee shall have proceeded to enforce any right under this Indenture, and such proceedings shall have been discontinued or abandoned because of waiver or for any other reason, or shall have been determined adversely to the Trustee, then and in every such case the City, the Trustee, the Credit Provider and the holders of the Bonds, severally and respectively, shall be restored to their former positions and rights hereunder in respect to the trust estate; and all remedies, rights and powers of the City, the Trustee, the Credit Provider and the holders of the Bonds shall continue as though no such proceedings had been taken.

Section 7.05. Remedies Cumulative. No remedy herein conferred upon or reserved to the Trustee or to any holder of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity.

Section 7.06. Covenant to Pay Bonds in Event of Default. The City covenants that, upon the happening of any Event of Default, the City will pay to the Trustee upon demand, but only out of Revenues, for the benefit of the holders of the Bonds, the whole amount then due and payable thereon (by declaration or otherwise) for interest or for principal and premium, or both, as the case may be, and all other sums which may be due hereunder or secured hereby, including reasonable compensation to the Trustee, its agents and counsel, and any expenses or liabilities incurred by the Trustee hereunder. In case the City shall fail to pay the same forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled to institute proceedings at law or in

equity in any court of competent jurisdiction to recover judgment for the whole amount due and unpaid, together with costs and reasonable attorneys' fees, subject, however, to the condition that such judgment, if any, shall be limited to, and payable solely out of, Revenues as herein provided and not otherwise. The Trustee shall be entitled to recover such judgment as aforesaid, either before or after or during the pendency of any proceedings for the enforcement of this Indenture, and the right of the Trustee to recover such judgment shall not be affected by the exercise of any other right, power or remedy for the enforcement of the provisions of this Indenture.

Section 7.07. Trustee Appointed Agent for Bondholders. The Trustee is hereby appointed the agent and attorney of the holders of all Bonds outstanding hereunder for the purpose of filing any claims relating to the Bonds.

Section 7.08. Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of holders of the Bonds, it shall have full power, in the exercise of its discretion for the best interests of the holders of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default hereunder, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the holders of at least a majority in principal amount of the Bonds outstanding hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

All rights of action under this Indenture or under any of the Bonds secured hereby which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name as Trustee of an express trust for the equal and ratable benefit of the Bondholders, subject to the provisions of this Indenture.

Section 7.09. Limitation on Bondholders' Right to Sue. No holder of any Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, unless (a) such holder shall have previously given to the Trustee written notice of the occurrence of an Event of Default hereunder; (b) the holders of at least 25% in aggregate principal amount of all the Bonds then outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said holders

shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of thirty (30) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any holder of Bonds of any remedy hereunder; it being understood and intended that no one or more holders of Bonds shall have any right in any manner whatever by his or their action to enforce any right under this Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all holders of the outstanding Bonds (subject to the provisions of Section 6.02 hereof).

The right of any holder of any Bond to receive payment of the principal of (and premium, if any) and interest on such Bond out of Revenues, as herein and therein provided, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such holder, notwithstanding the foregoing provisions of this Section or Section 7.08 or any other provision of this Indenture.

Section 7.10. Limitation of Liability to Revenues. Notwithstanding anything in this Indenture contained, the City shall not be required to advance any moneys derived from the proceeds of taxes collected by the City or by any governmental body or political subdivision of the State of California or from any source of income of any governmental body or political subdivision of the State of California or the City other than the Revenues, for any of the purposes in this Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of this Indenture. The Bonds are not general obligations of the City, and are payable from and secured by the Revenues only.

ARTICLE VIII

THE TRUSTEE AND THE REGISTRAR

Section 8.01. Duties, Immunities and Liabilities of Trustee and Registrar. The Trustee and the Registrar shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture. The Trustee shall, during the existence of any Event of Default

(which has not been cured), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs.

No provision of this Indenture shall be construed to relieve the Trustee or the Registrar from liability for its own negligent action or its own negligent failure to act, except that:

(a) Prior to such an Event of Default hereunder and after the curing of all Events of Default which may have occurred,

(1) the duties and obligations of the Trustee and the Registrar, as the case may be, shall be determined solely by the express provisions of this Indenture; the Trustee or the Registrar, as the case may be, shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture; and no covenants or obligations shall be implied into this Indenture which are adverse to the Trustee and the Registrar, as the case may be; and

(2) in the absence of bad faith on the part of the Trustee or the Registrar, as the case may be, the Trustee and the Registrar may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee or the Registrar, as the case may be, conforming to the requirements of this Indenture; but in the case of any such certificate or opinion which by any provision hereof is specifically required to be furnished to the Trustee or the Registrar, as the case may be, the Trustee or the Registrar, as the case may be, shall be under a duty to examine the same to determine whether or not it conforms to the requirements of this Indenture; and

(b) At all times, regardless of whether or not any Event of Default shall exist,

(1) the Trustee and the Registrar shall not be liable for any error of judgment made in good faith by a responsible officer or officers of the Trustee or the Registrar unless it shall be proved that the Trustee or the Registrar, as the case may be, was negligent in ascertaining the pertinent facts; and

(2) neither the Trustee nor the Registrar shall be personally liable with respect to any action taken, permitted or omitted by it in good faith and reasonably believed by it to be authorized or within the

discretion or rights or power conferred upon it by this Indenture unless it shall be proved that the Trustee or the Registrar, as the case may be, was negligent.

(c) The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents or receivers, and shall be entitled to advice of counsel concerning all matters of trust and concerning its duties hereunder.

(d) The Trustee shall not be bound to make any investigation into the facts of matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, or other paper or document, unless requested in writing to do so by the Borrower, any holder of Bonds or the City; provided, however, that if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in connection with making such investigation shall be, in the sole opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such cost, expense or liability as a condition to proceeding with such investigation. The reasonable expense of every such investigation shall be paid by the Borrower.

(e) Notwithstanding any other provision of this Indenture or the Agreement, the Trustee shall not be charged with knowledge of any Event of Default under this Indenture or any failure by the Borrower to comply with the obligations of the Borrower set forth in the Agreement, except default under Section 6.1(a) of the Agreement or Sections 7.01(a) or 7.01(b) hereof, unless a Responsible Officer of the Trustee obtains actual knowledge of such Event of Default or failure to comply, as the case may be, which may be in the form of written notice delivered to the Trustee pursuant to Section 11.07.

None of the provisions contained in this Indenture shall require the Trustee or Registrar to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Section 8.02. Right of Trustee and Registrar to Rely upon Documents, Etc.

(a) The Trustee and the Registrar may rely and shall be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, Bond, direction, demand, election or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) Any notice, request, direction, election, order or demand of the City mentioned herein shall be sufficiently evidenced by an instrument signed in the name of the City by an Authorized City Representative, and any resolution of the City may be evidenced to the Trustee or the Registrar by a Certified Resolution;

(c) The Trustee and the Registrar may consult with counsel (who may include counsel for the City or Bond Counsel) and the opinion or advice of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion or advice of such counsel; and

(d) Whenever in the administration of the trusts of this Indenture the Trustee or the Registrar shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee or the Registrar, as the case may be, be deemed to be conclusively proved and established by a Certificate of the City; and such Certificate of the City shall, in the absence of negligence or bad faith on the part of the Trustee or the Registrar, as the case may be, be full warrant to the Trustee or the Registrar, as the case may be, for any action taken or suffered by it under the provisions of this Indenture upon the faith thereof.

Section 8.03. Trustee and Registrar Not Responsible for Recitals. The recitals contained herein and in the Bonds shall be taken as the statements of the City, and the Trustee and the Registrar assume no responsibility for the correctness of the same except (with respect to the Registrar) for the Certificate of Authentication thereon. The Trustee and the Registrar make no representations as to the validity or sufficiency of this Indenture or of the Bonds. The Trustee and the Registrar shall not be accountable for the use or application by the City of any of the Bonds authenticated or delivered hereunder or of the proceeds of such Bonds except to the extent specifically provided in this Indenture.

Section 8.04. Right of Trustee and Registrar to Acquire Bonds. The Trustee, the Registrar and their officers and directors may acquire and hold, or become the pledgee of, Bonds and otherwise deal with the City in the manner and to the same extent and with like effect as though it were not Trustee or Registrar, as the case may be, hereunder.

Section 8.05. Moneys Received by Trustee and Registrar to Be Held in Trust. Subject to the provisions of Section 10.03, all moneys received by the Trustee and the Registrar shall, until

used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law or as otherwise provided herein. Except to the extent provided otherwise herein, any interest allowed on any such moneys shall be deposited in the fund to which such moneys are credited. Available Amounts and amounts being aged to become Available Amounts, amounts received under any Credit Facility and proceeds of any remarketing of Bonds shall not be commingled with any other funds held by the Trustee hereunder.

Section 8.06. Compensation and Indemnification of Trustee and Registrar. The Trustee and the Registrar shall be entitled to reasonable compensation for all services rendered by it in the execution of the trusts created and in the exercise and performance of any of the powers and duties hereunder of the Trustee or the Registrar, as the case may be, which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust, and the Agreement will require the Borrower to pay or reimburse the Trustee or the Registrar, as the case may be, upon its request for all expenses, disbursements and advances incurred or made by the Trustee or the Registrar, as the case may be, in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. If any property, other than cash, shall at any time be held by the Trustee or the Registrar, as the case may be, subject to this Indenture, or any supplemental indenture, as security for the Bonds, the Trustee or the Registrar, as the case may be, if and to the extent authorized by a receivership, bankruptcy or other court of competent jurisdiction or by the instrument subjecting such property to the provisions of this Indenture as such security for the Bonds, shall be entitled (but not required) to make advances for the purpose of preserving such property or of discharging tax liens or other prior liens or encumbrances thereon. The Agreement will also require the Borrower to indemnify the Trustee or the Registrar, as the case may be, for, and to hold it harmless against, any loss, liability, expense or advance incurred or made without negligence or bad faith on the part of the Trustee or the Registrar, as the case may be, arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim of liability in the premises. Notwithstanding the foregoing, prior to seeking indemnity the Trustee shall make timely payments of principal of and interest on the Bonds with moneys on deposit in the Bond Fund as provided herein, and shall accelerate the payment of principal on the Bonds and draw on the Credit Facility when required by this Indenture. Subject to Section 7.03 hereof, the rights of the Trustee to compensation for its services and to payment or reimbursement for its expenses, disbursements, liabilities or advances shall have priority over the Bonds in respect of all

property or funds held or collected by the Trustee as such and other funds held in trust by the Trustee for the benefit of the holders of particular Bonds; provided, however, that the Trustee shall have no claim against moneys drawn under the Credit Facility for payment of such compensation or reimbursement.

Section 8.07. Qualifications of Trustee and Registrar. There shall at all times be a trustee and a registrar hereunder which shall be corporations or banking associations organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least Fifty Million Dollars ($50,000,000), subject to supervision or examination by federal or state authority, and whose senior, unsecured debt obligations, or whose parent or holding company's senior, unsecured debt obligations, are continuously rated at least Baa3 or Prime3 by Moody's Investors Service (so long as such Rating Agency maintains a rating on the Bonds and on such Person, parent or holding company, as the case may be); provided, however, that no Credit Provider shall be eligible to serve as Trustee or Registrar so long as it is the provider of a Credit Facility hereunder. If such corporations or banking associations publish reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such corporations or banking associations shall be deemed to be their combined capital and surplus as set forth in their most recent reports of conditions so published. In case at any time the Trustee or the Registrar shall cease to be eligible in accordance with the provisions of this Section, the Trustee or the Registrar, as the case may be, shall resign immediately in the manner and with the effect specified in Section 8.08.

Section 8.08. Resignation and Removal of Trustee or Registrar and Appointment of Successor Trustee or Registrar. (a) The Trustee or Registrar may at any time resign by giving written notice to the City and the Borrower and by giving to the Bondholders notice either by publication of such resignation, which notice shall be published at least once in a Qualified Newspaper, or by mailing notice by first class mail to such Bondholders. The Trustee shall also mail a copy of any such notice of resignation to the Rating Agencies. Upon receiving such notice of resignation, the City, with the consent of the Borrower, shall promptly appoint a successor trustee or registrar, as the case may be, by an instrument in writing. If no successor trustee or registrar, as the case may be, shall have been so appointed and have accepted appointment within thirty days after the giving of such notice of resignation by the Trustee or Registrar, as the case may be, the resigning trustee or registrar, as the case may be, may petition any court of competent jurisdiction for the appointment of a successor trustee or registrar, as the case may be, or any Bondholder who has been a bona fide holder of a Bond for at least six months may, on

behalf of himself and others similarly situated, petition any such court for the appointment of a successor trustee or registrar, as the case may be. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor trustee or registrar, as the case may be.

(b) In case at any time either of the following shall occur:

(1) the Trustee or Registrar shall cease to be eligible in accordance with the provisions of Section 8.07 and shall fail to resign after written request therefor by the City or by any Bondholder who has been a bona fide holder of a Bond for at least six months, or

(2) the Trustee or Registrar shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or Registrar or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or Registrar or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the City may remove the Trustee or Registrar, as the case may be, and, with the advice and consent of the Borrower, appoint a successor trustee by an instrument in writing, or any such Bondholder may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee or Registrar, as the case may be, and the appointment of a successor trustee or registrar, as the case may be. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, remove the Trustee or Registrar, as the case may be, and appoint a successor trustee or registrar, as the case may be.

(c) The City, in the absence of an Event of Default, with the advice and consent of the Borrower, or the holders of a majority in aggregate principal amount of the Bonds at the time outstanding may at any time remove the Trustee or Registrar, as the case may be, and appoint a successor trustee or registrar, as the case may be, by an instrument or concurrent instruments in writing signed by the City or such Bondholders, as the case may be.

(d) Any resignation or removal of the Trustee or Registrar, as the case may be, and appointment of a successor trustee or registrar, as the case may be, pursuant to any of the provisions of this Section shall become effective only upon acceptance of appointment by the successor trustee or registrar, as the case may be, as provided in Section 8.09, and upon transfer of any Credit Facility to the successor Trustee. The successor Trustee or successor Registrar, as the case may be,

shall mail written notice of its appointment to each Rating Agency.

Section 8.09. Acceptance of Trust by Successor Trustee. Any successor trustee appointed as provided in Section 8.08 shall execute, acknowledge and deliver to the City, the Borrower and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts hereunder, with like effect as if originally named as Trustee herein; but, nevertheless, on the Written Request of the City or the request of the successor trustee, the trustee ceasing to act shall execute and deliver an instrument transferring to such successor trustee, upon the trusts herein expressed, all the rights, powers and trusts of the trustee so ceasing to act. Upon request of any such successor trustee, the City shall execute any and all instruments in writing necessary or desirable for more fully and certainly vesting in and confirming to such successor trustee all such rights, powers and duties. Any trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such trustee to secure the amounts due it as compensation, reimbursement, expenses and indemnity afforded to it by Section 8.06.

No successor trustee shall accept appointment as provided in this Section 8.09 unless at the time of such acceptance such successor trustee shall be eligible under the provisions of Section 8.07.

Upon acceptance of appointment by a successor trustee as provided in this Section, the City or such successor trustee shall give Bondholders notice of the succession of such trustee to the trusts hereunder in the manner prescribed in Section 8.08 for the giving of notice of resignation of the Trustee.

Section 8.10. Merger or Consolidation of Trustee or Registrar. Any corporation or banking association into which the Trustee may be merged or with which it may be consolidated, or any corporation or banking association resulting from any merger or consolidation to which the Trustee or Registrar shall be a party, or any corporation or banking association succeeding to the business of the Trustee or Registrar, shall be the successor of the Trustee or Registrar hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding, provided that such successor trustee or registrar shall be eligible under the provisions of Section 8.07.

Section 8.11. Accounting Records and Reports. The Trustee and Registrar shall keep proper books of record and account in accordance with trust accounting standards in which

complete and correct entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the Revenues and the proceeds of the Bonds. To the extent the Borrower directs the Trustee with respect to the investment of moneys in any fund or account, the Borrower shall provide the Trustee with the records required by this Section 8.11. Such records shall specify the account or fund to which each investment (or portion thereof) held by the Trustee is to be allocated and shall set forth, in the case of each Investment Security, (a) its purchase price, (b) its value at maturity or its sale price, as the case may be, (c) the amounts and dates of any payments to be made with respect thereto and (d) such documentation and evidence as is required to be obtained by the Borrower to establish that the requirements of Article V of the Tax Certificate have been met. Such records shall be open to inspection by the City, the Borrower and the Credit Provider and by any Bondholder at any reasonable time during regular business hours on reasonable notice. Upon request of the City, the Trustee shall furnish to the City statements of all investments made by the Trustee and all funds and accounts held by the Trustee.

Section 8.12. Registrars. The City, at the request of the Borrower, shall appoint a registrar for the Bonds. Each Registrar shall be a bank, trust company or national banking association which meets the qualifications of Section 8.07 hereof, willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it hereby. Each Registrar shall signify its acceptance of the duties and obligations imposed upon it hereby by executing and delivering to the City and the Trustee a written acceptance thereof. The Registrar initially appointed hereunder is the Trustee.

Section 8.13. Special Bondholder Requests. Upon receipt of a written request from a person or entity stating that such person or entity is the beneficial owner of Bonds, the Trustee shall send, to the address designated by such beneficial owner:

(i) at the time any notice is given to Bondholders pursuant to this Indenture, a copy of any such notice;

(ii) upon reasonable request and payment by such beneficial owner of processing and mailing expenses, a report specifying (A) the amount of Bonds then Outstanding, (B) a redemption history with respect to the Bonds which shall include redemption dates and redemption prices with respect to all redemptions prior to the date of such report, and (C) the current status of insurance coverage with respect to the Project (to the extent the Borrower has provided information with respect thereto); and

(iii) within fifteen (15) days after the occurrence of an Event of Default under Section 7.01(a) or Section 7.01(b) hereof or receipt by a Responsible Officer of the Trustee of actual knowledge of the occurrence of any other Event of Default, notice by Mail of any such Event of Default, unless such Event of Default is cured or waived prior to the giving of such notice.

Neither the City nor the Trustee shall be liable for any failure by the Trustee to send any report or notice specified in this Section 8.14 to any beneficial owner, or any defect contained in any such report or notice, and any such failure or defect shall not affect the sufficiency of any proceedings under this Indenture.

Section 8.14. Tax Certificate. The Trustee covenants and agrees that it will comply with all instructions of the Borrower given in accordance with the Tax Certificate and will take any and all action as may be necessary in accordance with such instructions. The Trustee acknowledges receipt of the Tax Certificate and acknowledges that the provisions of the Tax Certificate are incorporated herein by reference as provided in Section 6.06.

Section 8.15. Appointment of Separate or Co-Trustee. It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction (including, without limitation, the law of the State of California) denying or restricting the rights of banking corporations or associations to transact business as trustees in such jurisdiction. It is recognized that in the event the Trustee shall not be permitted to, by reason of litigation under this Indenture or the Agreement or the enforcement thereof on default, or in the event that the Trustee deems that by reason of any laws of any jurisdiction, it may not, exercise any of the powers, rights or remedies herein granted to the Trustee or perform any of the duties or obligations herein imposed on the Trustee or hold title to the properties or estates, in trust, as herein granted, or take any action which may be desirable or necessary in connection therewith, the Trustee shall have the power to appoint an additional Person or Persons (which need not meet the eligibility requirements set forth in Section 8.07) as separate or co-trustee. The following provisions are adapted to those ends.

In the event that the Trustee appoints an additional Person as separate or co-trustee, each and every power, right, remedy, duty, obligation, property or estate expressed by this Indenture to be exercised, incurred or assumed by or vested in or conveyed to the Trustee with respect thereto shall be exercisable, incurred or assumed by, vested in and conveyed to such separate or co-trustee but only to the extent necessary to enable such separate or co-trustee to exercise such powers, rights and remedies or perform such duties and obligations, and only to the extent that the Trustee by the laws of any

jurisdiction (including, without limitation, the State of California) is incapable of exercising, incurring, assuming or being vested with or conveyed such powers, rights, remedies, duties, obligations, properties or estates and every covenant and obligation necessary to the exercise thereof by such separate or co-trustee shall run to and be enforceable by the Trustee or such separate or co-trustee, subject to all the provisions of this Indenture including every provision relating to the conduct of, affecting the liability of, or affording protection to, the Trustee. Any power, right, remedy, duty or obligation conferred or imposed upon the Trustee shall be conferred or imposed upon and exercised or performed by the Trustee and such separate or co-trustee jointly, except to the extent that under the law of any jurisdiction in which any particular act or acts are to be performed (including, without limitation, the holding of title to the Trust Estate) the Trustee shall be incompetent or incapable to perform such act or acts, in which event the powers, rights, remedies, duties and obligations shall be exercised or performed only by such separate or co-trustee. No power which pursuant to this Section 8.15 is exercisable by any such separate or co-trustee may be exercised except jointly with, or with the written consent of, the Trustee, and no appointment of, or action by, any separate or co- trustee shall relieve the Trustee of any of its obligations hereunder or otherwise affect any of the terms of this Indenture or the interests of the holders of the Bonds in the Trust Estate. The Trustee shall give immediate written notice of the appointment of any separate or co-trustee to the City and the Borrower, but shall not be required to give notice of such appointment to the Bondholders.

Should any instrument in writing from the City be required by the separate or co-trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to him or it any powers, rights, remedies, duties, obligations, properties or estates hereunder, any and all such instruments in writing shall, on request, if such instruments impose no additional duties, responsibilities or liabilities on the City and do not otherwise adversely affect the City, be executed, acknowledged and delivered by the City at the expense of the Borrower. Any notice, demand, request or other instrument or writing given to the Trustee shall be deemed to have been given to each of the separate and co-trustees as effectively as if given to each of them. In case any separate or co-trustee or a successor to either shall die, become incapable of acting, resign or be removed, all the powers, rights, remedies, duties, obligations and interests of such separate or co-trustee, so far as permitted by law, shall vest in and be executed by the Trustee. The Trustee shall be entitled to remove any separate or co-trustee appointed by the Trustee upon written notice to the City, the Borrower and such separate or co-trustee. The Trustee shall immediately remove any separate or co-trustee appointed by it hereunder upon cessation of the conditions requiring such appointment.

ARTICLE IX

MODIFICATION OF INDENTURE, DOCUMENTS

Section 9.01. Modification without Consent of Bondholders. The City and the Trustee, without the consent of or notice to any Bondholders but with the consent of the Credit Provider, from time to time and at any time, and subject to the conditions and restrictions contained in this Indenture, may enter into an indenture or indentures supplemental hereto, which indenture or indentures thereafter shall form a part hereof; and the Trustee, without the consent of or notice to any Bondholders but with the consent of the Credit Provider, from time to time and at any time, may consent to a waiver of any provision of or an amendment or modification to (herein collectively referred to as an "Amendment") the Agreement, any Credit Facility or Credit Agreement or any other document, instrument or agreement relating to the Project or the security for the Bonds (herein collectively referred to as the "Documents"); in each case for any one or more of the following purposes:

(a) to add to the covenants and agreements of the City contained in this Indenture, or of the Borrower or the Credit Provider contained in any Document, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for the Bonds, or to surrender any right or power herein or therein reserved to or conferred upon the City or the Borrower; provided, that no such covenant, agreement, assignment, pledge or surrender shall materially adversely affect the interests of the holders of the Bonds;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision contained in this Indenture or any Document, or in regard to matters or questions arising under this Indenture or any Document, as the City may deem necessary or desirable and not inconsistent with this Indenture and which shall not materially adversely affect the interests of the holders of the Bonds;

(c) to modify, amend or supplement this Indenture or any indenture supplemental hereto in such manner as to permit the qualification hereof or thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, and, if they so determine, to add to this Indenture or any indenture supplemental hereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute, and which shall not adversely affect the interests of the holders of the Bonds;

(d) to provide for any additional procedures, covenants or agreements necessary to maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes;

(e) to provide for, modify or eliminate a book-entry registration system for the Bonds;

(f) to provide for the procedures required to permit any Bondholder to separate the right to receive interest on the Bonds from the right to receive principal thereof and to sell or dispose of such rights, as contemplated by Section 1286 of the Code;

(g) to provide for the appointment of a co-trustee or the succession of a new Trustee, Registrar or Paying Agent;

(h) to change Exhibit A to the Agreement in accordance with the provisions thereof and of the Tax Certificate and the Engineering Certificate;

(i) to provide for a Credit Facility;

(j) in connection with any other change which, in the judgment of the Trustee, which may be based upon an Opinion of Counsel, will not adversely affect the security for the Bonds or the exclusion from gross income of interest thereon for federal income tax purposes or otherwise materially adversely affect the holders of the Bonds; or

(k) to modify, alter, amend or supplement this Indenture or any Document in any other respect, including amendments which would otherwise be described in Section 9.02 hereof, if the effective date of such amendment is a date on which all Bonds affected thereby are subject to mandatory tender for purchase pursuant to Section 2.01(e) or if Notice by Mail of the proposed Amendment is given to Bondholders at least thirty (30) days before the effective date thereof and, on or before such effective date, the Bondholders have the right to demand purchase of their Bonds pursuant to Section 2.01(d) hereof.

Any supplemental indenture or Amendment authorized by the provisions of this Section 9.01 may be executed by the City and the Trustee following notice to the Borrower and receipt of the consent of the Credit Provider, but without the consent of (or notice to) the holders of any of the Bonds at the time outstanding; provided, however, that (i) the Trustee shall not be obligated to enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture; and (ii) the Trustee shall not enter into any such supplemental indenture or Amendment which affects the

rights or obligations of the Borrower hereunder or under the Agreement without first obtaining the written consent of the Borrower. The Trustee will give notice (which shall be supplied to the Trustee by and at the expense of the Borrower) of the provisions of any supplemental indenture authorized by the provisions of this Section 9.01 to each Bondholder at its address as it appears on the registration books of the Registrar and to the Rating Agencies. Any supplemental indenture or amendment to the Agreement or other document permitted pursuant to this Section 9.01 may be approved by an Authorized City Representative and need not be approved by resolution or other action of the City Council of the City.

Section 9.02. Modification with Consent of Bondholders. With the consent of the Credit Provider and the holders of not less than sixty percent (60%) in aggregate principal amount of the Bonds at the time outstanding, evidenced as provided in Section 11.06, (i) the City and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture; or (ii) the Trustee may consent to any of the matters for which its consent is required pursuant to Section 6.04 hereof, including any amendment to or modification of the Agreement or any other document relating to the Project or the security for the Bonds; provided, however, that, except as provided in Section 9.01, no such amendment or modification will have the effect of extending the time for payment or reducing any amount due and payable by the Borrower pursuant to the Agreement without the consent of all the holders of the Bonds; and that no such supplemental indenture shall (1) extend the fixed maturity of any Bond or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the holder of each Bond so affected, or (2) reduce the aforesaid percentage of holders of Bonds whose consent is required for the execution of such supplemental indentures, or permit the creation of any lien on the Revenues prior to or on a parity with the lien of this Indenture, except as permitted herein, or permit the creation of any preference of any Bondholder over any other Bondholder or deprive the holders of the Bonds of the lien created by this Indenture upon the Trust Estate or the pledge of any Credit Facility, without the consent of the holders of all the Bonds then outstanding. Nothing in this paragraph shall be construed as making necessary the approval of any Bondholder of any supplemental indenture permitted by the provisions of Section 9.01.

Upon receipt by the Trustee of a request by the City for the execution of any such supplemental indenture or modification or amendment, and upon the filing with the Trustee of evidence of the consent of the Credit Provider and Bondholders, as aforesaid, the Trustee shall join with the City

in the execution of such supplemental indenture or shall consent to such modification or amendment, unless (i) such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture; or (ii) such supplemental indenture or such modification or amendment affects the rights or obligations of the Borrower hereunder or under the Agreement, in which case the Trustee shall enter into such supplemental indenture or shall consent to such modification or amendment only if the Trustee has received the Borrower's written consent thereto.

It shall not be necessary for the consent of the Bondholders under this Section to approve the particular form of any proposed supplemental indenture or modification or amendment, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the parties thereto of any supplemental indenture or modification or amendment to the Agreement or other document as provided in this Section, the Trustee shall mail a notice (which shall be supplied to the Trustee by and at the expense of the Borrower), setting forth in general terms the substance of such supplemental indenture or such modification or amendment, to the Credit Provider, to each Bondholder at the address contained in the bond register maintained by the Registrar and to the Rating Agencies. Any failure of the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture or such amendment.

Section 9.03. Effect of Supplemental Indenture or Amendment. Upon the execution of any supplemental indenture or any amendment to the Agreement pursuant to the provisions of this Article IX, this Indenture or the Agreement, as the case may be, shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture and the Agreement of the City, the Trustee, the Borrower and all holders of outstanding Bonds shall thereafter be determined, exercised and enforced hereunder and under the Agreement subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture or amendment shall be part of the terms and conditions of this Indenture or the Agreement, as the case may be, for any and all purposes.

Section 9.04. Required and Permitted Opinions of Counsel. Subject to the provisions of Section 8.01, the Trustee may receive an Opinion of Counsel as conclusive evidence that any supplemental indenture or amendment executed pursuant to the provisions of this Article IX complies with the requirements of this Article IX. No supplemental indenture or amendment or modification to the Agreement or any other document relating to the Project or the Bonds shall be effective until the City and

the Trustee shall have received an opinion of Bond Counsel to the effect that such supplemental indenture or such amendment or modification is permitted by the Law and will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Section 9.05. Notation of Modification on Bonds; Preparation of New Bonds. Bonds authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article IX may bear a notation, at the written request of the City, as to any matter provided for in such supplemental indenture, and if such supplemental indenture shall so provide, new Bonds, so modified as to conform, in the opinion of the Trustee and the City, to any modification of this Indenture contained in any such supplemental indenture, may be prepared by the City, authenticated by the Trustee and delivered without cost to the holders of the Bonds then outstanding, upon surrender for cancellation of such Bonds in equal aggregate principal amounts.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Indenture. If the entire indebtedness on all Bonds outstanding shall be paid and discharged in any one or more of the following ways:

(a) by the payment of the principal of, and premium, if any, and interest on all Bonds outstanding, as and when the same become due and payable; or

(b) by the delivery to the Registrar, for cancellation by it, of all Bonds outstanding;

and if all other sums payable hereunder by the City shall be paid and discharged, then thereupon this Indenture shall cease, terminate and become null and void, and thereupon the Trustee shall, upon Written Request of the City, and upon receipt by the Trustee of a Certificate of the City and an Opinion of Counsel, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of this Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging this Indenture. The Trustee shall mail written notice of such payment and discharge to the Rating Agencies. The satisfaction and discharge of this Indenture shall be without prejudice to the rights of the Trustee to charge and be reimbursed by the Borrower for any expenditures which it may thereafter incur in connection herewith.

Any Bond or Authorized Denomination thereof shall be deemed to be paid within the meaning of this Indenture when

(a) payment of the principal of and premium, if any, on such Bond or Authorized Denomination thereof, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided herein) either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for by irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment (1) moneys sufficient to make such payment and/or (2) nonprepayable, noncallable Government Obligations maturing as to principal and interest in such amount and at such time as will insure the availability of sufficient moneys (as verified by a nationally recognized certified public accountant) to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Trustee pertaining to any such deposit shall have been paid or the payment thereof provided for to the satisfaction of the Trustee; provided that no Bond shall be deemed to be paid within the meaning of this Indenture unless arrangements satisfactory to the Trustee shall have been made to assure that Bonds tendered for purchase in accordance with Section 2.01(d) or (e) hereof can be paid and redeemed from such moneys and/or Government Obligations and the Trustee shall have received written confirmation from each Rating Agency that such Rating Agency's then current rating on the Bonds will not be lowered or withdrawn as a result of such provision. The Trustee shall be entitled to require an opinion of Bond Counsel to the effect that the defeasance of the Bonds has been effected in accordance with the terms of this Indenture and that such defeasance, in and of itself, will not adversely affect the Tax-Exempt status of interest on the Bonds. At such time as a Bond or Authorized Denomination thereof shall be deemed to be paid hereunder, as aforesaid, such Bond or Authorized Denomination thereof shall no longer be secured by or entitled to the benefits of this Indenture, except for the purposes of any such payment from such moneys or Government Obligations. The Trustee shall deliver to the Rating Agencies (at the expense of the Borrower) a copy of each nationally recognized certified public accountant's verification report and each opinion of Bond Counsel rendered pursuant to this paragraph.

The City or the Borrower or the Credit Provider may at any time surrender to the Registrar for cancellation by it any Bonds previously authenticated and delivered which the City or the Borrower or the Credit Provider lawfully may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Section 10.02. Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.04) to pay or redeem outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the

Trustee shall have been made for giving such notice, all liability of the City and the Borrower in respect of such Bonds shall cease, terminate and be completely discharged, except that the City and Borrower shall remain liable for such payment but only from, and the Bondholders shall thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date) out of, the money deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Sections 6.06 and 10.03; provided that no Bond shall be deemed to be paid within the meaning of this Indenture unless arrangements satisfactory to the Trustee shall have been made to assure that Bonds tendered for purchase in accordance with Section 2.01(d) or (e) hereof can be paid and redeemed from such moneys and/or Government Obligations.

Section 10.03. Payment of Bonds after Discharge of Indenture. Notwithstanding any provisions of this Indenture, and subject to applicable laws of the State of California, any moneys deposited with the Trustee or any Paying Agent, in trust for the payment of the principal of, or interest or premium on, any Bonds remaining unclaimed for two years after the principal of any of or all the outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in this Indenture), shall then be repaid to the Borrower upon its Written Request, and the holders of such Bonds shall thereafter be entitled to look only to the Borrower for payment thereof, and all liability of the Trustee or any paying agent with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Borrower as aforesaid, the Trustee or paying agent, as the case may be, shall (at the request and cost of the Borrower) first publish at least once in a Qualified Newspaper a notice, in such form as may be deemed appropriate by the Borrower, in respect of the Bonds so payable and not presented and in respect of the provisions relating to the repayment to the Borrower of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Borrower as aforesaid, the holders of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be unsecured creditors of the Borrower for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Borrower (without interest thereon).

Section 10.04. Deposit of Money or Securities with Trustee. Whenever in this Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Indenture and shall be Available Amounts constituting:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all

unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) nonprepayable, noncallable Government Obligations the principal of and the interest on which when due will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that (i) the Borrower shall furnish to the Trustee an opinion of Bond Counsel to the effect that such deposit, in and of itself, will not adversely affect the Tax-exempt status of interest on the Bonds and (ii) the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by Written Request of the City) to apply such money to the payment of such principal or redemption price and interest with respect to such Bonds.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Successors of City. All the covenants, stipulations, promises and agreements in this Indenture contained, by or on behalf of the City, shall bind and inure to the benefit of its successors and assigns, whether so expressed or not. If any of the powers or duties of the City shall hereafter be transferred by any law of the State of California, and if such transfer shall relate to any matter or thing permitted or required to be done under this Indenture by the City, then the body or official of the State of California who shall succeed to such powers or duties shall act and be obligated in the place and stead of the City as provided in this Indenture.

Section 11.02. Limitation of Rights to Parties and Bondholders. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the City, the Trustee, the Borrower, any Credit Provider and the holders of the Bonds issued hereunder any legal or equitable right, remedy or claim under or in respect of this

Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the City, the Trustee, the Borrower, any Credit Provider and the holders of the Bonds issued hereunder.

Section 11.03. Waiver of Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 11.04. Separability of Invalid Provisions. In case any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, but this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

Section 11.05. Notices. It shall be sufficient service of any notice, request, complaint, demand or other paper on the City, the Trustee, the Borrower, the Registrar, the Paying Agent, the Tender Agent, the Credit Provider or the Remarketing Agent if the same shall be duly mailed by first class mail, postage prepaid, addressed as follows:

To the City:	City of Big Bear Lake 39707 Big Bear Boulevard Big Bear Lake, CA 92315 Attention: City Manager
with a copy to:	Best, Best & Krieger 400 Mission Square 3750 University Avenue Riverside, CA 92502 Attention: Scott C. Smith
To the Trustee, the Registrar and the Paying Agent:	Harris Trust and Savings Bank 311 West Monroe Street, 12th Floor Chicago, Illinois 60608 Attention: Indenture Trust Department
To the Borrower:	Southwest Gas Corporation 5241 Spring Mountain Road Las Vegas, NV 89102 Attention: Treasurer
To the Credit Provider:	The address specified in the Credit Agreement.

To the Remarketing Agent:	Smith Barney Shearson Inc. 1345 Avenue of the Americas New York, New York 10105 Attention: Short-Term Tax Exempt Trading Group
with a copy to:	Lehman Brothers Inc. 200 Vesey Street, 20th Floor New York, New York 10285
To the Tender Agent:	Bank of Montreal Trust Company 77 Water Street, 4th Floor New York, New York 10005 Attention: Corporate Trust Department

The City, the Trustee, the Borrower, the Registrar, the Paying Agent, the Tender Agent, the Credit Provider or the Remarketing Agent may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. A duplicate copy of each notice, certificate or other communication given hereunder by the City or the Trustee to the other shall also be given to the Borrower and the Credit Provider. Unless otherwise requested by the City, the Trustee, the Borrower, the Registrar, the Paying Agent, the Tender Agent, the Credit Provider or the Remarketing Agent, any notice required to be given hereunder in writing may be given by any form of telephonic or electronic transmission capable of making a written record.

Any notice required to be given hereunder to the Rating Agencies, as well as a duplicate copy of each notice given hereunder by the Trustee to the holders of the Bonds, shall be given by the Trustee via first-class mail to the following two Rating Agencies at the following respective addresses (or at such different addresses as may be specified in writing to the Trustee by the respective Rating Agencies): Standard & Poor's Corporation, 25 Broadway, New York, New York 10004, Attention: Financial Institutions/LOC; Moody's Investors Service, 99 Church Street, 4th Floor, New York, New York 10007, Attention: Structured Finance Group.

Section 11.06. Evidence of Rights of Bondholders. (a) Any request, consent or other instrument required by this Indenture to be signed and executed by Bondholders may be in any number of concurrent writings of substantially similar tenor and may be signed or executed by such Bondholders in person or by agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee, the Registrar and the City if made in the manner provided in this Section.

(b) The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument or writing acknowledged to him the execution thereof.

(c) The ownership of registered Bonds shall be proved by the Bond register maintained by the Registrar pursuant to Section 2.04 hereof. The fact and the date of execution of any request, consent or other instrument may also be proved in any other manner which the Trustee may deem sufficient. The Trustee may nevertheless, in its discretion, require further proof in cases where it may deem further proof desirable.

(d) Any request, consent or vote of the holder of any Bond shall bind every future holder of the same Bond and the holder of any Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the City in pursuance of such request, consent or vote.

(e) In determining whether the holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned by the City, by the Borrower or by any other direct or indirect obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City, the Borrower, or any other direct or indirect obligor on the Bonds, shall be disregarded and deemed not to be outstanding for the purpose of any such determination, provided that, for the purpose of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only Bonds which the Trustee knows to be so owned shall be disregarded. Bonds so owned which have been pledged in good faith may be regarded as outstanding for the purposes of this subsection (e) if the pledgee shall certify to the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City, the Borrower or any other direct or indirect obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Solely for purposes of the limitation expressed in this paragraph (e), the Credit Provider and the Borrower shall be deemed to be indirect obligors on the Bonds, unless, in each case, it then owns all of the Bonds.

(f) In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Bondholders upon such notice and in

accordance with such rules and regulations, including the right of the Bondholders to be represented and vote by proxy, as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

Section 11.07. Waiver of Personal Liability. No City Council member, officer, agent or employee of the City, and no officer, official, agent or employee of the State of California or any department, board or agency of the City or the State of California shall be individually or personally liable for the payment of the principal of or premium or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

Section 11.08. Publication of Notices. Any publication of notice to be made under the provisions of this Indenture may be made in each instance upon any business day of the week, and, except as provided in Section 10.03, no such publication shall be required if such notice is given by first class mail to the holders of all Bonds then outstanding.

Section 11.09. Prevailing Law. This Indenture shall be governed by and construed in accordance with the laws of the State of California, except that the Trustee's obligations and duties hereunder shall be governed by the construed in accordance with the laws of the State of New York.

Section 11.10. Execution in Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the City and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 11.11. The Credit Provider. All provisions hereof regarding consents, approvals, directions, appointments or requests by the Credit Provider shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by the Credit Provider and shall be read as if the Credit Provider were not mentioned therein and as if no Credit Facility were in effect during any time in which the Credit Provider is in default under the Credit Facility, or after the Credit Facility shall at any time for any reason cease to be valid and binding on the Credit Provider, or shall be declared to be null and void, or while the Credit Provider is denying further liability or obligation under the Credit Facility or after the Credit Provider has rescinded, repudiated or terminated the Credit Facility.

All provisions herein relating to the Credit Provider shall be of no force and effect if there is no Credit Facility or

Credit Agreement in effect and there are no Credit Provider Bonds and all amounts owing to the Credit Provider under the Credit Agreement have been paid.

IN WITNESS WHEREOF, the City has caused this Indenture to be signed in its name and its seal to be hereunto affixed and attested by its duly authorized officers, respectively, and the Trustee, in token of its acceptance of the trust created hereunder, has caused this Indenture to be signed in its name by its duly authorized signatory, all as of the day and year first above written.

CITY OF BIG BEAR LAKE

By _________________________
Mayor

[SEAL]

Attest:

____
City Clerk

HARRIS TRUST AND SAVINGS BANK,
as Trustee

By __________________________
Title:

EXHIBIT A

[FORM OF BOND]

$ No. ___

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
CITY OF BIG BEAR LAKE
INDUSTRIAL DEVELOPMENT REVENUE BOND
(SOUTHWEST GAS CORPORATION PROJECT)
1993 SERIES A

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR THE CITY OF BIG BEAR LAKE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THIS BOND, NOR IS SAID STATE OR SAID CITY IN ANY MANNER OBLIGATED TO MAKE ANY APPROPRIATION FOR PAYMENT OF THIS BOND. THIS BOND DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA, THE CITY OF BIG BEAR LAKE OR ANY PUBLIC AGENCY THEREOF AND IS PAYABLE SOLELY FROM THE SOURCES HEREINAFTER IDENTIFIED.

[For Variable Term Rate Periods Only

Interest Rate	Number of Days in Variable Term Segment	Mandatory Purchase and Interest Payment Date	Amount of Interest Due for Variable Term Segment
_____%	_______	_______	$_______]

DATED DATE	MATURITY DATE	CUSIP
, 199_	December 1, 2028	

REGISTERED HOLDER:

PRINCIPAL AMOUNT:

The CITY OF BIG BEAR LAKE, a municipal corporation and charter city duly organized and existing under the laws and Constitution of the State of California (the "City"), for value received, hereby promises to pay (but only out of Revenues as hereinafter provided) to the registered holder identified above or registered assigns, on the maturity date set forth above, the principal amount set forth above and to pay (but only out of the sources hereinafter provided) interest on the balance of said

principal amount from time to time remaining unpaid from and including the date hereof until payment of said principal amount has been made or duly provided for, at the rates and on the dates determined as described herein and in the Indenture (as hereinafter defined), and to pay (but only out of the sources hereinafter provided) interest on overdue principal and, to the extent permitted by law, on overdue interest at the rate set forth in the Indenture, except as the provisions hereinafter set forth with respect to redemption, tender or acceleration prior to maturity may become applicable hereto. The principal of and premium, if any, on this Bond are payable in lawful money of the United States of America at the principal office of ____________________, or its successors and assigns, as paying agent (the "Paying Agent"), which office is initially located at ______________________________. Interest payments on this Bond shall be made by the Paying Agent to the registered owner hereof as of the close of business on the Record Date (as defined in the Indenture) with respect to each Interest Payment Date (as defined in the Indenture) and shall be paid (i) by bank check or draft mailed to the registered owner hereof at its address as it appears on the registration books of the Trustee, as registrar (the "Registrar"), on the Record Date or at such other address as is furnished in writing by such registered owner to the Registrar, or (ii) during any Rate Period (as defined in the Indenture) other than a Term Rate Period (as defined herein), in immediately available funds (by wire transfer or by deposit to the account of the registered owner of this Bond if such account is maintained with the Paying Agent), but in respect of any registered owner of any Bond or Bonds in a Daily Rate Period (as defined herein) or a Weekly Rate Period (as defined herein), only to any registered owner that owns Bonds in an aggregate principal amount of at least $1,000,000 on such Record Date, according to the instructions given by the registered owner hereof to the Registrar or, if no such instructions have been provided as of the Record Date, by check or draft mailed to the registered owner at such registered owner's address as it appears as of the Record Date on the registration books of the Registrar; except, in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the holders in whose name any such Bonds are registered as of a special record date to be fixed by the Trustee, notice of which shall be given to such owners not less than ten (10) days prior thereto. Notwithstanding the foregoing, interest in respect of this Bond at any time it bears interest at a Variable Term Rate shall be paid only upon presentation of this Bond to the Tender Agent.

This Bond is one of a duly authorized issue of bonds of the City designated as the "City of Big Bear Lake Industrial Development Revenue Bonds (Southwest Gas Corporation Project) 1993 Series A" (the "Bonds"), limited in aggregate principal amount as provided in, and issued under and secured by, an Indenture of Trust (herein called the "Indenture"), dated as of December 1, 1993, between the City and ____________________, or

its successors and assigns, as trustee (the "Trustee"). Reference is hereby made to the Indenture and all indentures supplemental thereto for a description of the rights thereunder of the registered owners of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the City thereunder, to all of the provisions of which Indenture the holder of this Bond, by acceptance hereof, assents and agrees.

The Bonds are authorized to be issued pursuant to the provisions of Ordinance No. 84-106 of the City, adopted May 9, 1984, as amended and supplemented to the date hereof (the "Law"). The Bonds are special, limited obligations of the City and, as and to the extent set forth in the Indenture, are payable solely from, and secured by a pledge of and lien on, the Revenues (as that term is defined in the Indenture), consisting primarily of loan repayments made by Southwest Gas Corporation (the "Borrower") under the terms of a Loan Agreement, dated as of December 1, 1993 (the "Agreement"), between the City and the Borrower. The Bonds are all issued under and equally and ratably secured by and entitled to the benefits of the Indenture, including the security of a pledge and assignment of certain revenues and receipts derived by the City pursuant to the Agreement and any Credit Facility (as described herein) and all receipts of the Trustee credited under the provisions of the Indenture against such payments and from any other moneys held by the Trustee under the Indenture for such purpose, and there shall be no other recourse against the City or any property now or hereafter owned by it. The issuance of the Bonds shall not directly or indirectly or contingently obligate the City, the State of California or any public agency to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment.

In the manner hereinafter provided and subject to the provisions of the Indenture, the term of this Bond will be divided into consecutive Rate Periods during each of which this Bond shall bear interest at either the Daily Rate (the "Daily Rate Period"), the Weekly Rate (the "Weekly Rate Period"), the Term Rate (the "Term Rate Period") or the Variable Term Rate or Rates (the "Variable Term Rate Period"). The Initial Rate Period for this Bond shall be a Weekly Rate Period and during such Initial Rate Period this Bond shall bear interest at Weekly Rates. The subsequent Rate Period(s) and interest rate(s) for this Bond shall be determined in accordance with the Indenture.

This Bond shall bear interest from the Interest Payment Date next preceding the date of registration hereof unless it is registered after a Record Date and on or prior to the related Interest Payment Date, in which event this Bond shall bear interest from such Interest Payment Date, or unless this Bond is registered before the Record Date for the first Interest Payment Date, in which event this Bond shall bear interest from the Dated Date; provided, however, that if, as shown by the records of the

Paying Agent, interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for on the Bonds, or, if no interest has been paid or duly provided for on the Bonds, from the Dated Date. Interest shall be computed, (a) in the case of a Term Rate Period, on the basis of a 360-day year consisting of twelve 30-day months, and (b) in the case of any other Rate Period, on the basis of a 365- or 366-day year, as appropriate, and the actual number of days elapsed. The term "Interest Payment Date" means (i) with respect to any Daily or Weekly Rate Period, the first Business Day of each calendar month, (ii) with respect to any Term Rate Period, the first day of the sixth month following the commencement of the Term Rate Period and the first day of each sixth month thereafter, (iii) with respect to any Variable Term Segment the Business Day next succeeding the last day thereof, and (iv) with respect to any Rate Period other than a Variable Term Rate Period, the Business Day succeeding the last day thereof. The term "Business Day" means a day on which banks located in the cities in which the Principal Offices of the Trustee, the Registrar, the Paying Agent, the Tender Agent, the Remarketing Agent and any Credit Provider are located are not required or authorized to be closed and on which the New York Stock Exchange is not closed and, in the case of any action to be taken by the Borrower, which is not a legal holiday in Las Vegas, Nevada.

This Bond shall be deliverable in the form of a registered Bond without coupons (a) in the denominations of $5,000 or any integral multiple thereof during any Term Rate Period; (b) in the denominations of $100,000 and any integral multiple thereof during any Daily Rate Period or Weekly Rate Period; and (c) in the denominations of $100,000 and any integral multiple of $5,000 in excess of $100,000 during any Variable Term Rate Period (such denominations being referred to herein as "Authorized Denominations").

The Borrower may, pursuant to the terms of the Indenture and the Agreement, cause a Credit Facility to be in effect, which may be a letter of credit, guarantee, standby purchase agreement, bond insurance or other support arrangement or security, including mortgage bonds.

At the times and subject to the conditions set forth in the Indenture, the Borrower may elect that the Bonds shall bear interest at an interest rate, and for a period, different from those then applicable. It is not required that all Bonds bear interest at the same rate, provided, that except as otherwise set forth in the Indenture, no more than one Rate Period may apply to the Bonds at any one time. Except as otherwise provided in the Indenture, the Trustee shall give notice of any such adjustment of the interest rate determination method to the owner of this Bond not less than 12 days (15 days if the then current Rate Period shall be a Term Rate Period or if the Bonds are then held

in book-entry form as provided in the Indenture) prior to its effective date.

During each Daily Rate Period, this Bond shall bear interest at the Daily Rate, determined in accordance with the provisions of the Indenture by the Remarketing Agent on each Business Day for such Business Day.

During each Weekly Rate Period, this Bond shall bear interest at the Weekly Rate, determined in accordance with the provisions of the Indenture by the Remarketing Agent no later than the first day of such Weekly Rate Period and thereafter no later than Tuesday of each week during such Weekly Rate Period, unless any such Tuesday shall not be a Business Day, in which event the Weekly Rate shall be determined by the Remarketing Agent no later than the Business Day next succeeding such Tuesday.

During each Term Rate Period, this Bond shall bear interest at the Term Rate, determined in accordance with the provisions of the Indenture by the Remarketing Agent on a Business Day selected by the Remarketing Agent no later than the effective date of such Term Rate Period.

During each Variable Term Rate Period, this Bond shall bear interest during each Variable Term Segment for this Bond at the Variable Term Rate for this Bond as described in the Indenture. Each Variable Term Segment and Variable Term Rate for this Bond shall be determined in accordance with the provisions of the Indenture by the Remarketing Agent by agreement with the purchaser of this Bond. Each Variable Term Segment shall be a period of not more than 230 days.

In no event shall the interest rate on this Bond be greater than the Maximum Interest Rate (as defined in the Indenture).

During any Daily Rate Period, this Bond or portion hereof in an Authorized Denomination shall be purchased at the option of the Holder thereof on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, upon (a) delivery to the Tender Agent at its Principal Office, by not later than 10:30 a.m., New York time, on such Business Day, of an irrevocable notice by telephone or in person, which states the principal amount of this Bond and the Purchase Date, and (b) delivery of this Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in a form satisfactory to the Tender Agent, executed in blank by the owner thereof with the signature of such owner guaranteed by a bank, trust company or member firm of the New York Stock Exchange, at or prior to 3:00 p.m., New York time, on the Purchase Date specified in such notice.

During any Weekly Rate Period, this Bond or any portion hereof in an Authorized Denomination shall be purchased at the option of the Holder thereof on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, upon (a) delivery to the Tender Agent at its Principal Office of an irrevocable notice in writing, or by telephone confirmed in writing, by 5:00 p.m., New York time, on any Business Day, which states the principal amount of this Bond to be tendered for purchase and the Purchase Date, which date shall not be prior to the seventh day next succeeding the date of the delivery of such notice to the Tender Agent, and (b) delivery of this Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in a form satisfactory to the Tender Agent, executed in blank by the owner thereof with the signature of such owner guaranteed by a bank, trust company or member firm of the New York Stock Exchange, at or prior to 3:00 p.m., New York time, on the Purchase Date specified in such notice.

During any Term Rate Period, this Bond or any portion hereof in an Authorized Denomination shall be purchased at the option of the Holder thereof at the end of any Term Rate Period which is followed by a Term Rate Period of equal duration at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, upon (a) delivery to the Tender Agent at its Principal Office of an irrevocable notice in writing by 5:00 p.m., New York time, on any Business Day not less than seven days before the Purchase Date, which states the principal amount of this Bond to be tendered for purchase and (b) delivery of this Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in a form satisfactory to the Tender Agent, executed in blank by the owner thereof with the signature of such owner guaranteed by a bank, trust company or member firm of the New York Stock Exchange, at or prior to 3:00 p.m., New York time, on the Purchase Date.

In each case in which a portion of this Bond is tendered for purchase, both the portion so tendered and the untendered portion of this Bond shall be in Authorized Denominations.

This Bond shall be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the Purchase Date: (a) on the effective date of any change in a Rate Period other than the effective date of a Term Rate Period which was preceded by a Term Rate Period of the same duration; (b) during any Variable Term Rate Period, on the day next succeeding the last day of any Variable Term Segment applicable to this Bond; (c) on the second Business Day preceding the termination of any Credit Facility unless the Trustee shall have received, on or before the twentieth day prior to such termination date, confirmation from each Rating Agency (as defined in the Indenture) that such termination shall not result in the lowering

or withdrawal of such Rating Agency's then current rating on the Bonds; and (d) on a day not more than 20 days after receipt by the Trustee from the Credit Provider of a notice to the effect that the Credit Provider has not been reimbursed for a drawing under the Credit Facility and that the amount available to be drawn under the Credit Facility has not been reinstated. This Bond is also subject to mandatory tender for purchase on the day next succeeding the last day of any Term Rate Period which ends prior to the day originally established as the last day of such Term Rate Period, at the principal amount thereof plus an amount equal to any premium which would have been payable on such day had the Borrower directed redemption of this Bond as described below.

Holders of Bonds bearing interest at Variable Term Rates which are subject to mandatory purchase as described in clause (b) of the immediately preceding paragraph may direct the Trustee not to purchase their Bonds, or portions of the principal amount thereof (in which case both the portion to be purchased and the portion directed not to be purchased must be of Authorized Denominations), on the Purchase Date. Any such direction shall be given by delivering to the Tender Agent by telephone on or prior to 10:30 a.m., New York time, on the first day of the applicable Variable Term Segment notice which (a) specifies the numbers and denominations of Bonds owned by such Holder and (b) directing the Trustee not to purchase such Bond or a portion thereof.

BY ACCEPTANCE OF THIS BOND, THE REGISTERED OWNER HEREBY AGREES THAT IF THIS BOND IS TO BE PURCHASED AND IF MONEYS SUFFICIENT TO PAY THE PURCHASE PRICE SHALL BE HELD BY THE TENDER AGENT ON THE DATE THIS BOND IS TO BE PURCHASED, THIS BOND SHALL BE DEEMED TO HAVE BEEN PURCHASED AND SHALL BE PURCHASED ACCORDING TO THE TERMS OF THE TENDER AGREEMENT, FOR ALL PURPOSES OF THE INDENTURE, WHETHER OR NOT THIS BOND SHALL HAVE BEEN DELIVERED TO THE TENDER AGENT, AND THE REGISTERED OWNER OF THIS BOND SHALL HAVE NO CLAIM HEREON, UNDER THE INDENTURE OR OTHERWISE, FOR ANY AMOUNT OTHER THAN THE PURCHASE PRICE HEREOF.

This Bond shall be redeemed in whole at any time at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date upon prepayment by the Borrower of the payments due under the Agreement in whole following the occurrence of certain extraordinary events.

During any Term Rate Period, the Bonds are subject to redemption at the option of the Borrower, in whole or in part, by lot, on any date prior to the applicable first date for optional redemption as provided in the Indenture, upon prepayment by the Borrower of the payments due under the Agreement in whole or in part in connection with certain determinations, as set forth in the Indenture, regarding the potential or actual loss of its right to deduct for federal income tax purposes some or all of the interest payable under the Agreement as a result of a change

in the use of the facilities financed with the proceeds of the Bonds, at the applicable redemption price set forth in the Indenture.

The Bonds are subject to redemption upon optional prepayment by the Borrower of amounts due under the Agreement, at the times, in the manners and at the prices set forth in the Indenture with respect to Daily Rate, Weekly Rate, Term Rate, or Variable Term Rate Periods.

The Bonds are subject to mandatory redemption prior to maturity in whole, or in part, as provided in the Indenture at any time prior to their maturity at a redemption price equal to the principal amount thereof plus accrued interest thereon to the redemption date upon the occurrence of certain events causing the interest on the Bonds to be includable in gross income for federal income tax purposes, the existence of certain facts which, but for such mandatory redemption, would cause interest on the Bonds to be includable in gross income for federal income tax purposes, and events of default under the Agreement. The Bonds are also subject to mandatory redemption at any time after the Completion Date (as defined in the Indenture) at a redemption price equal to the principal amount thereof plus accrued interest thereon to the redemption date, to the extent of excess proceeds.

Notice of any optional or mandatory redemption shall be given by first-class mail not less than 15 days nor more than 60 days prior to the date fixed for redemption to, among others, the holders of Bonds to be redeemed at their addresses appearing on the registration books of the Registrar. If less than all of the Bonds are to be redeemed, the particular Bonds to be redeemed shall be selected as provided in the Indenture.

Neither the members of the City Council nor any person executing this Bond shall be liable personally on this Bond or be subject to any personal liability or accountability by reason of the issuance thereof. No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement in the Indenture contained, against any past, present or future City Council member or officer, employee or agent of the City, or through the City, or any successor to the City, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such member, director, officer, employee or agent as such is hereby expressly waived and released as a condition of and in consideration for the execution of the Indenture and the issuance of any of the Bonds.

The holder of this Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any Event of Default (as defined in the Indenture), or to institute,

appear in or defend any suit or other proceedings with respect thereto, except as provided in the Indenture. If an Event of Default occurs and is continuing, the principal of all Bonds then outstanding issued under the Indenture may be declared due and payable upon the conditions and in the manner and with the effect provided in the Indenture.

Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, Bonds may be exchanged at the principal office of the Registrar for a like aggregate principal amount of Bonds of like tenor in Authorized Denominations.

This Bond is transferable by the registered holder hereof, in person, or by its attorney duly authorized in writing, at the principal office of the Registrar, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a new fully registered Bond or Bonds of like tenor in Authorized Denominations, for the same aggregate principal amount, will be issued to the transferee in exchange herefor.

The City, the Registrar, the Trustee, any Paying Agent and any agent of the City, the Registrar, the Trustee or any Paying Agent may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Bond be overdue, and neither the City, the Registrar, the Trustee, any Paying Agent nor any such agent shall be affected by notice to the contrary.

The Indenture contains provisions permitting the City and the Trustee, with the consent of the holders of not less than 60% in aggregate principal amount of the Bonds at the time outstanding, evidenced as in the Indenture provided, to execute supplemental indentures adding any provisions to, or changing in any manner, or eliminating any of the provisions of, the Indenture; provided, however, that no such supplemental indenture shall (1) extend the fixed maturity of this Bond or reduce the rate of interest hereon or extend the time of payment of interest, or reduce the amount of the principal hereof, or reduce any premium payable on the redemption hereof, without the consent of the holder hereof, or (2) reduce the aforesaid percentage of holders of Bonds whose consent is required for the execution of such supplemental indentures, or permit the creation of any lien on the Trust Estate (as defined in the Indenture) prior to or on a parity with the lien of the Indenture, or permit the creation of any preference of any holder of Bonds over any other holder of Bonds or deprive the holders of the Bonds of the lien created by the Indenture upon the Revenues, without the consent of the holders of all Bonds then outstanding. The Indenture also contains provisions permitting the City and the Trustee, without

the consent of any holders of the Bonds, to execute supplemental indentures for certain purposes specified in the Indenture.

The Indenture prescribes the manner in which it may be discharged and after which the Bonds shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of registration and exchange of Bonds and of payment of the principal of and redemption premium, if any, and interest on the Bonds as the same become due and payable, including a provision that under certain circumstances the Bonds shall be deemed to be paid if Government Obligations, as defined therein, maturing as to principal and interest in such amounts and at such times as to insure the availability of sufficient moneys to pay the principal of, premium, if any, and interest on the Bonds and all necessary and proper fees, compensation and expenses of the Trustee, shall have been deposited with the Trustee.

It is hereby certified that all of the conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the Law and by the Constitution and statutes of the State of California and that the amount of this Bond, together with all other indebtedness of the City, does not exceed any limit prescribed by the Constitution or statutes of the State of California.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been signed by the Registrar or the Tender Agent.

IN WITNESS WHEREOF, the City of Big Bear Lake has caused this Bond to be executed in its name and on its behalf by the facsimile signature of its Mayor and attested by the facsimile signature of its City Clerk and its seal to be reproduced hereon, all as of the Dated Date set forth above.

CITY OF BIG BEAR LAKE

By ____________________
Mayor

[SEAL]

ATTEST:

____
City Clerk

[Form of]

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds described in the within-mentioned Indenture of Trust.

Date of Authentication: _______________

HARRIS TRUST AND SAVINGS BANK, as Registrar

OR

BANK OF MONTREAL TRUST COMPANY, as Tender Agent

By ____________________________
Authorized Signatory

By ___________________________
Authorized Signatory

[ABBREVIATIONS]

The following abbreviations, when used in the inscription on the face of the within bond and in the assignment below, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM-- as tenants in common

TEN ENT-- as tenants by the entireties

JT TEN-- as joint tenants with right of survivorship and not as tenants in common

Additional abbreviations may also be used though not in the above list.

UNIF GIFT/TRAN MIN ACT--_______ (Cust) Custodian __________ (Minor)
Under Uniform Gifts/Transfer to Minors Act

____
(State)

[FORM OF ASSIGNMENT]

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto ____
____

(Please Print or Typewrite Name and Address of Assignee)

(Insert Social Security or other Identifying Number of Assignee)
____ the within Bond and hereby irrevocably constitutes and appoints ____ attorney to register the transfer of said Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: __________________________
Signature: ______________________

SIGNATURE GUARANTEED:

____

NOTICE: Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Registrar.

____

EXHIBIT 10.03

FINANCING AGREEMENT

Between

CLARK COUNTY, NEVADA

And

SOUTHWEST GAS CORPORATION

____

Dated as of September 1, 1992

Relating to

$130,000,000

Clark County, Nevada
Industrial Development Revenue Bonds
(Southwest Gas Corporation)
1992 Series A
and
1992 Series B

FINANCING AGREEMENT

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FINANCING AGREEMENT

THIS FINANCING AGREEMENT, dated as of September 1, 1992 (this "Agreement"), by and between CLARK COUNTY, NEVADA, a political subdivision of the State of Nevada (the "Issuer"), and SOUTHWEST GAS CORPORATION, a corporation organized and existing under the laws of the State of California and qualified to do business as a foreign corporation under the laws of the State of Nevada (the "Company"),

W I T N E S S E T H

WHEREAS, the Issuer is authorized and empowered under the County Economic Development Revenue Bond Law, Sections 244A.669 to 244A.763, inclusive, of the Nevada Revised Statutes, as amended (the "Act"), to borrow money and to issue bonds in accordance with the Act and to use the proceeds thereof for the purpose of financing or refinancing all or part of the cost of certain facilities, including the cost of extending, adding to, or improving such facilities, and to make loans to any person, firm, corporation or other industrial entity for the planning, design, construction, acquisition or carrying out of any facilities in furtherance of the public purpose for which the Issuer was created; and

WHEREAS, pursuant to the Act, the Issuer has previously issued $30,000,000 aggregate principal amount of Clark County, Nevada Variable Rate Demand Industrial Development Revenue Bonds (Southwest Gas Corporation) Series 1985 (the "1985 Bonds") and $50,000,000 aggregate principal amount of Clark County, Nevada Variable Rate Demand Industrial Development Revenue Bonds (Southwest Gas Corporation) Series 1988 (the "1988 Bonds" and collectively with the 1985 Bonds, the "Prior Bonds") for the purpose of financing and refinancing certain real and personal properties, facilities, machinery and equipment for the local furnishing of gas (the "Existing Facilities") for Southwest Gas Corporation, a California corporation qualified to do business in the State of Nevada (the "Company");

WHEREAS, the Issuer proposes to issue its Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation) 1992 Series A and 1992 Series B (collectively, the "Bonds"), in the aggregate principal amount of $130,000,000 upon the terms and conditions set forth in the Indenture of Trust, of even date herewith (the "Indenture"), between the Issuer and the Trustee, for the purposes, among others, of refunding the Prior Bonds and financing the costs of the acquisition, construction, improvement and equipping of certain additional real and personal properties, facilities, machinery and equipment described in Exhibit "A" hereto (the "Project" and, collectively with the Existing Facilities, the "Facilities"), which together qualify as a "project" under the Act;

NOW, THEREFORE, in consideration of the premises and the respective representations and covenants herein contained, the parties hereto agree as follows

ARTICLE I

DEFINITIONS

SECTION 1.1. DEFINITION OF TERMS. Unless the context otherwise requires, the terms used in this Agreement shall have the meanings specified in Section 1.01 of the Indenture, as originally executed or as the same may from time to time be supplemented or amended as provided therein.

SECTION 1.2. NUMBER AND GENDER. The singular form of any word used herein, including the terms defined in Section 1.01 of the Indenture, shall include the plural, and vice versa. The use herein of a word of any gender shall include all genders.

SECTION 1.3. ARTICLES, SECTIONS, ETC. Unless otherwise specified, references to Articles, Sections and other subdivisions of this Agreement are to the designated Articles, Sections and other subdivisions of this Agreement as originally executed. The words "hereof," "herein," "hereunder" and words of similar import refer to this Agreement as a whole. The headings or titles of the several articles and sections, and the table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the provisions hereof.

ARTICLE II

REPRESENTATIONS

SECTION 2.1. REPRESENTATIONS OF THE ISSUER. The Issuer makes the following representations as the basis for its undertakings herein contained:

(a) The Issuer is a political subdivision of the State of Nevada. Under the provisions of the Act, the Issuer has the power to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder. By proper action, the Issuer has been duly authorized to execute, deliver and duly perform this Agreement. To the extent the representations contained in the immediately preceding two sentences relate to powers granted to the Issuer under the Act, such representations are made in reliance on an opinion of Bond Counsel.

(b) To refund the Prior Bonds and finance the Project the Issuer will issue the Bonds, which will mature, bear interest and be subject to redemption as provided in the Indenture.

(c) The Issuer has not pledged and will not pledge its interest in this Agreement for any purpose other than to secure the Bonds under the Indenture.

(d) The Issuer is not in default under any of the provisions of the laws of the State of Nevada which default would affect its existence or its powers referred to in subsection (a) of this Section 2.1.

(e) The Issuer has found and determined and hereby finds and determines that all requirements of the Act with respect to the issuance of the Bonds and the execution of this Agreement have been complied with and that refunding the Prior Bonds and financing the Project by issuing the Bonds and entering into this Agreement will be in furtherance of the purposes of the Act.

(f) On August 18, 1992, the Issuer adopted its resolution approving the issuance of the Bonds.

(g) No member, officer or other official of the Issuer has any interest whatsoever in this Agreement or in the transactions contemplated hereby.

SECTION 2.2. REPRESENTATIONS OF THE COMPANY. The Company makes the following representations as the basis for its undertakings herein contained:

(a) The Company is a corporation duly formed under the laws of the State of California, is in good standing in the State of California, is qualified to do business as a foreign corporation under the laws of the State of Nevada and has the corporate power to enter into and has duly authorized, by proper corporate action, the execution and delivery of this Agreement and all other documents contemplated hereby to be executed by the Company.

(b) Neither the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions hereof, conflict with or result in a breach of any of the terms, conditions or provisions of the Company's Articles of Incorporation or by-laws or of any corporate actions or of any agreement or instrument to which the Company is now a party or by which it is bound, or constitute a default (with due notice or the passage of time or both) under any of the foregoing, or result in the creation or imposition of any prohibited lien, charge or encumbrance whatsoever upon any of the property or assets of the Company under the terms of any instrument or agreement to which the Company is now a party or by which it is bound.

(c) The estimated cost of the Project is as set forth in the Tax Certificate and has been determined in accordance with

sound engineering principles and certain other principles set forth in the Tax Certificate.

(d) The Facilities consist of those facilities described in Exhibit A hereto, and in the Southwest Gas Corporation Engineering Certificate dated [September ___], 1992 (the "Engineering Certificate"), which is hereby incorporated by reference herein, and the Company shall make no changes to the Facilities or to the operation thereof which would affect the qualification of the Facilities under the Act or impair the Tax-exempt status of interest on the Bonds. In particular, the Company has complied and shall comply with all requirements set forth in the Tax Certificate. The Company intends to utilize the Facilities as facilities for the local furnishing of gas until the principal of, the premium, if any, and the interest on the Bonds shall have been paid.

(e) The Company has and will have title to the Facilities, and all necessary easements to install the Project, sufficient to carry out the purposes of this Agreement.

(f) At the time of submission of an application to the Issuer for financial assistance in connection with the Project and on the dates on which the Issuer took action on such application, permanent financing for the Project had not otherwise been obtained or arranged.

(g) All certificates, approvals, permits and authorizations with respect to the construction of the Project of agencies of applicable local governments, the States of Nevada and California and the federal government have been obtained or will be obtained in the normal course of business.

ARTICLE III

CONSTRUCTION OF THE PROJECT; AMENDMENT OF THE FACILITIES; ISSUANCE OF THE BONDS

SECTION 3.1. AGREEMENT TO CONSTRUCT THE PROJECT; AMENDMENT OF THE FACILITIES. The Company agrees that it will acquire, construct and install, or complete the acquisition, construction and installation of the Project, and will acquire, construct and install all other facilities and real and personal property deemed necessary for the operation of the Project, substantially in accordance with the plans and specifications prepared therefor by the Company and approved by the Issuer, including any and all supplements, amendments and additions or deletions thereto or therefrom, it being understood that the approval of the Issuer shall not be required for changes in such plans and specifications which do not alter the purpose and description of the Project as set forth in Exhibit A hereto. The Company further agrees to proceed with due diligence to complete the Project within three years from the date hereof.

In the event that the Company desires to amend or supplement the Facilities, and such amendment or supplement alters the purpose or description of the Facilities as described in Exhibit A hereto, and the Issuer approves of such amendment or supplement, the Issuer will enter into, and will instruct the Trustee to consent to, such amendment or supplement upon receipt of:

(i) a certificate of the Authorized Company Representative describing in detail the proposed changes and stating that they will not have the effect of disqualifying the Facilities as a facility that may be financed pursuant to the Act;

(ii) a copy of the proposed form of amended or supplemented Exhibit A hereto; and

(iii) an opinion of Bond Counsel that such proposed changes will not affect the Tax.exempt status of interest on any of the Bonds.

SECTION 3.2. AGREEMENT TO ISSUE BONDS; APPLICATION OF BOND PROCEEDS. To provide funds to refund the Prior Bonds and finance the Project as provided in Section 4.1 hereof, the Issuer agrees that it will issue under the Indenture, sell and cause to be delivered to the purchasers thereof, the Bonds, bearing interest and maturing as provided in the Indenture. The Issuer will thereupon deposit the proceeds received from the sale of the Bonds as provided in the Indenture.

SECTION 3.3 DISBURSEMENTS FROM THE CONSTRUCTION FUND AND COSTS OF ISSUANCE FUND. (a) The Company will authorize and direct the Trustee, upon compliance with Section 3.03 of the Indenture, to disburse the moneys in the Construction Fund to or on behalf of the Company only for the following purposes, subject to the provisions of Section 5.6 hereof:

(i) Payment to the Company of such amounts, if any, as shall be necessary to reimburse the Company in full for all advances and payments made by it, at any time prior to or after the delivery of the Bonds, in connection with (1) the preparation of plans and specifications for the Project (including any preliminary study or planning of the Project or any aspect thereof), and (2) subject to any limitation imposed by paragraph (vii) hereof, the acquisition, construction and installation of the Project.

(ii) Payment for labor, services, materials and supplies used by or furnished to the Company to improve the site and to acquire and construct the Project, as provided in the plans, specifications and work orders therefor; payment of the costs of acquiring, constructing and installing utility services or other related facilities; payment of the costs of acquiring all real and personal property deemed necessary to construct the Project; and

payment of the miscellaneous expenses incidental to any of the foregoing items.

(iii) Payment of the fees, if any, of architects, engineers, legal counsel and supervisors expended in connection with the acquisition and construction of the Project.

(iv) Payment of assessments and other charges, if any, that may become payable during the Construction Period with respect to the Project, or reimbursement thereof, if paid by the Company.

(v) Payment of expenses incurred in seeking to enforce any remedy against any contractor or subcontractor in respect of any default under a contract relating to the acquisition, construction or installation of the Project.

(vi) Interest paid during the Construction Period and properly chargeable to the capital account of the Project.

(vii) Payment of any other Costs of the Project permitted by the Engineering Certificate and the Tax Certificate (but not including any Costs of Issuance).

(b) All moneys remaining in the Construction Fund after the Completion Date and after payment or provision for payment of all other items provided for in subsection (a) of this Section shall be used in accordance with Section 3.03 of the Indenture.

(c) Each of the payments referred to in subsection (a) of this Section shall be made upon receipt by the Trustee of a written requisition in the form prescribed by Section 3.03 of the Indenture, signed by the Authorized Company Representative.

(d) The Company will authorize and direct the Trustee, upon compliance with Section 3.04 of the Indenture, to disburse the moneys in the Costs of Issuance Fund to or on behalf of the Company only for Costs of Issuance of the 1992 Series B Bonds, subject to the provisions of Section 5.6 hereof. Each of the payments referred to in this Section 3.3(d) shall be made upon receipt by the Trustee of a written requisition in the form prescribed by Section 3.04 of the Indenture, signed by the Authorized Company Representative.

SECTION 3.4. ESTABLISHMENT OF COMPLETION DATE; OBLIGATION OF COMPANY TO COMPLETE. As soon as the Project is completed, the Authorized Company Representative, on behalf of the Company, shall evidence the Completion Date by providing a certificate to the Trustee and the Issuer stating the Cost of the Project and further stating that (i) construction of the Project has been completed substantially in accordance with the plans, specifications and work orders therefor, and all labor, services, materials and supplies used in construction have been paid for,

and (ii) all other facilities necessary in connection with the Project have been acquired, constructed and installed in accordance with the plans and specifications and work orders therefor and all costs and expenses incurred in connection therewith have been paid. Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights of the Company against third parties for the payment of any amount not then due and payable which exist at the date of such certificate or which may subsequently exist.

At the time such certificate is delivered to the Trustee, moneys remaining in the Construction Fund, including any earnings resulting from the investment of such moneys, shall be used as provided in Section 3.03 of the Indenture. The Company shall pay to the Trustee for deposit in the Surplus Account an amount which, together with amounts transferred from the Construction Fund to such account pursuant to Section 3.03 of the Indenture, shall be sufficient to redeem 1992 Series B Bonds in Authorized Denominations.

In the event the moneys in the Construction Fund available for payment of the Cost of the Project should be insufficient to pay the costs thereof in full, the Company agrees to pay directly, or to deposit in the Construction Fund moneys sufficient to pay, any costs of completing the Project in excess of the moneys available for such purpose in the Construction Fund. The Issuer makes no express or implied warranty that the moneys deposited in the Construction Fund and available for payment of the Cost of the Project, under the provisions of this Agreement, will be sufficient to pay all the amounts which may be incurred for such Cost. The Company agrees that if, after exhaustion of the moneys in the Construction Fund, the Company should pay, or deposit moneys in the Construction Fund for the payment of, any portion of the Cost of the Project pursuant to the provisions of this Section, it shall not be entitled to any reimbursement therefor from the Issuer, from the Trustee or from the holders of any of the Bonds, nor shall it be entitled to any diminution of the amounts payable under Section 4.2 hereof.

SECTION 3.5. INVESTMENT OF MONEYS IN FUNDS. Any moneys in any fund held by the Trustee shall, at the written request of the Authorized Company Representative, be invested or reinvested by the Trustee as provided in the Indenture, subject to Section 5.6 hereof. Such investments shall be held by the Trustee and shall be deemed at all times a part of the fund from which such investments were made, and the interest accruing thereon, and any profit or loss realized therefrom, except as otherwise provided in the Indenture, shall be credited or charged to such fund.

ARTICLE IV

LOAN OF PROCEEDS; REPAYMENT PROVISIONS

SECTION 4.1. LOAN OF BOND PROCEEDS. The Issuer covenants and agrees, upon the terms and conditions in this Agreement, to make a loan to the Company for the purpose of refunding the Prior Bonds and financing the Project. Pursuant to said covenant and agreement, the Issuer will issue the Bonds upon the terms and conditions contained in this Agreement and the Indenture and will cause the Bond proceeds to be applied as provided in Article III of the Indenture. Such proceeds shall be disbursed as provided in Section 3.02 of the Indenture.

SECTION 4.2. REPAYMENT AND PAYMENT OF OTHER AMOUNTS PAYABLE. The Company agrees to make the payments required by subsections (a) through (d) of this Section as Repayment Installments on the loan to the Company from Bond proceeds pursuant to Section 4.1 hereof.

(a) The Company covenants and agrees to pay to the Trustee as a Repayment Installment on such loan, not later than each date provided in or pursuant to the Indenture for the payment of principal (whether at maturity or upon redemption or acceleration) of, premium, if any, and/or interest on the Bonds, until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, in immediately available funds, for deposit in the Bond Fund, a sum equal to the amount payable on such interest or principal payment or redemption or acceleration date as principal of (whether at maturity or upon redemption or acceleration), premium, if any, and interest upon the Bonds as provided in the Indenture.

Each payment pursuant to this Section 4.2(a) shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) and premium, if any, payable on the Bonds on the date of payment of principal or interest, as the case may be; provided that any amount held by the Trustee in the Bond Fund on any due date for a Repayment Installment hereunder shall be credited against the installment due on such date to the extent available for such purpose; and provided further that, subject to the provisions of this paragraph, if at any time the Company determines that amounts held by the Trustee in the Bond Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Bonds as such payments become due, the Company shall be relieved of any obligation to make any further payments under the provisions of this Section. Notwithstanding the foregoing, if on any date the amount held by the Trustee in the Bond Fund is insufficient to make any required payments of principal of (whether at maturity or upon redemption or acceleration) and interest and premium, if any, on the Bonds as such payments become due, the Company shall forthwith pay such deficiency as a Repayment Installment hereunder.

(b) The Company also agrees to pay to the Trustee until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made as required by the Indenture, (i) the annual fee of the Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses of the Trustee, as provided in the Indenture, as and when the same become due, (iii) the cost of printing any Bonds required to be furnished by the Issuer, and (iv) any amounts required to be deposited in the Rebate Fund to comply with the provisions of Section 5.6 hereof. The Company will also pay reasonable fees, charges and expenses of the Trustee as required by the Indenture following provision for payment of the Bonds.

(c) The Company also agrees to pay, within sixty (60) days after receipt of request for payment thereof, all expenses required to be paid by the Company under the terms of the Bond Purchase Agreement, and all fees and reasonable expenses of the Issuer related to issuance of the Bonds or the interpretation, enforcement or amendment of this Agreement or the Indenture which are not otherwise required to be paid by the Company under the terms of this Agreement; provided that the Issuer shall have obtained the prior written approval of the Authorized Company Representative for any expenditures other than those provided for herein or in the Bond Purchase Agreement.

(d) In the event the Company should fail to make any of the payments required by subsections (a) through (c) of this Section in respect of any Series of Bonds, such payments shall continue as obligations of the Company until such amounts shall have been fully paid. The Company agrees to pay overdue payments under subsection (a) of this Section, together with interest thereon until paid, to the extent permitted by law, at the rate of interest per annum borne by the Series of Bonds.

SECTION 4.3. UNCONDITIONAL OBLIGATION. The obligations of the Company to make the payments required by Section 4.2 hereof and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Issuer; and during the term of this Agreement, the Company shall pay absolutely net the payments to be made on account of the loan as prescribed in Section 4.2 and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of, premium, if any, and interest on the Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, the Company (i) will not suspend or discontinue any payments provided for in Section 4.2 hereof; (ii) will perform and observe all of its other covenants contained in this Agreement; and (iii) except as provided in Article VIII hereof, will not terminate this

Agreement for any cause, including, without limitation, failure to complete the Project, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to the Facilities, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of Nevada or any political subdivision of either of these, or any failure of the Issuer or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement or the Indenture, except to the extent permitted by this Agreement.

SECTION 4.4. ASSIGNMENT OF ISSUER'S RIGHTS. As security for the payment of the Bonds, the Issuer will assign to the Trustee the Issuer's rights under this Agreement, including the right to receive payments hereunder (except the right of the Issuer to receive certain payments, if any, with respect to expenses and indemnification under Sections 4.2(c), 6.3, 8.2 and 8.3 hereof and the right of the Issuer to consent to amendments to the Facilities pursuant to Section 3.1 hereof), and the Issuer hereby directs the Company to make the payments required hereunder (except such payments for expenses and indemnification) directly to the Trustee. The Company hereby assents to such assignment and agrees to make payments directly to the Trustee without defense or set-off by reason of any dispute between the Company and the Issuer or the Trustee.

SECTION 4.5. AMOUNTS REMAINING IN FUNDS. It is agreed by the parties hereto that after payment in full of (i) the Bonds, or after provision for such payment shall have been made as provided in the Indenture, (ii) the fees, charges and expenses of the Trustee, any paying agents and the Issuer in accordance with the Indenture and (iii) all other amounts required to be paid under this Agreement and the Indenture, including, without limitation, amounts required to be paid from the Rebate Fund, any amounts remaining in any fund held by the Trustee under the Indenture shall belong to the Company and be paid to the Company by the Trustee.

ARTICLE V

SPECIAL COVENANTS AND AGREEMENTS

SECTION 5.1. RIGHT OF ACCESS TO THE FACILITIES AND RECORDS. The Company agrees that during the term of this Agreement the Issuer, the Trustee and the duly authorized agents of either of them shall have the right at all reasonable times during normal business hours to examine the books and records of the Company with respect to the Facilities and to enter upon the site of the Facilities to examine and inspect the Facilities, provided, however, that this right is subject to federal and State of Nevada laws and regulations applicable to the site of the Facilities. The rights of access hereby reserved to the Issuer and the Trustee may be exercised only after such agent

shall have executed release of liability and secrecy agreements if requested by the Company in the form then currently used by the Company, and nothing contained in this Section or in any other provision of this Agreement shall be construed to entitle the Issuer or the Trustee to any information or inspection involving the confidential know-how of the Company.

SECTION 5.2. THE COMPANY'S MAINTENANCE OF ITS EXISTENCE; ASSIGNMENTS.

(a) To the extent permitted by law and its Articles of Incorporation, the Company agrees that during the term of this Agreement it will maintain its existence as a corporation, will continue to maintain its status as a corporation in good standing in the State of California, will continue to be qualified to conduct business in the State of Nevada under the laws thereof, will not dissolve or otherwise dispose of all or substantially all of its assets and will not combine or consolidate with or merge into another person or permit one or more persons to consolidate with or merge into it; PROVIDED, HOWEVER, that the Company may so combine or consolidate with another person legally existing under the laws of one of the states of the United States, or permit one or more such persons to consolidate with or merge into it, if the Company is the surviving corporation; and PROVIDED, FURTHER, that the Company may so combine, consolidate with, or merge into another person legally existing under the laws of one of the states of the United States, or permit one or more persons to consolidate with or merge into it, or sell or otherwise transfer to another person all or substantially all of its assets as an entity and thereafter dissolve if the Company delivers to the Issuer: (1) written evidence that the surviving, resulting or transferee person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Company hereunder; (2) written evidence that the surviving, resulting or transferee person, as the case may be, qualifies to do business in the State of Nevada; (3) written evidence that the surviving, resulting or transferee person, as the case may be, shall have a net worth greater than or equal to 90% of that of the Company immediately prior to such combination, consolidation or merger, determined in accordance with generally accepted accounting principles; (4) a copy of any application made to any regulatory commission or agency having jurisdiction over the merger or other transaction; (5) within ten (10) business days after the consummation of the merger (other than a merger involving the Company and any wholly-owned subsidiary of the Company) or other transaction, (A) counterpart copies of the merger instruments, or other documents constituting the transaction, including copies of the instruments of assumption referred to in clause (1) above and evidence of qualification as referred to in clause (2) above; and (B) an opinion of counsel satisfactory to the Issuer that all of the provisions of this Section 5.2(a) have been complied with and that all necessary corporate and governmental approvals have been obtained.

In the case of a merger involving the Company and any wholly-owned subsidiary of the Company, the Company shall send the Issuer a notice of such merger within ten (10) business days after its completion, together with an opinion of counsel as described in the preceding clause (5) (B). The Company shall provide the Issuer with at least thirty (30) days' written notice prior to the consummation of any merger or other transaction described in this Section 5.2(a). At such time the Company shall provide the Issuer with drafts of the documents of assumption and the legal opinion referred to in clause (5) above. The Company agrees to provide such other information as the Issuer may reasonably request in order to assure compliance with this Section 5.2(a).

Notwithstanding any other provisions of this Section 5.2(a), the Company need not comply with any of the provisions of the first two paragraphs of this Section 5.2(a) if, at the time of such merger, combination, sale of assets, dissolution or reorganization, the Bonds will be defeased as provided in Article X of the Indenture.

(b) The rights and obligations of the Company under this Agreement may be assigned by the Company to any person in whole or in part, subject, however, to each of the following conditions:

(i) No assignment other than pursuant to subsection (a) of this Section shall relieve the Company from primary liability for any of its obligations hereunder, and in the event of any assignment not pursuant to subsection (a) of this Section the Company shall continue to remain primarily liable for the payments specified in Section 4.2 hereof and for performance and observance of the other agreements on its part herein provided to be performed and observed by it.

(ii) Any assignment from the Company shall retain for the Company such rights and interests as will permit it to perform its obligations under this Agreement, and any assignee from the Company shall assume in writing the obligations of the Company hereunder to the extent of the interest assigned.

(iii) The Company shall give the Issuer thirty days notice of any assignment (other than pursuant to subsection (a) above), and shall, within thirty (30) days after delivery of any assignment, furnish or cause to be furnished to the Issuer and the Trustee a true and complete copy of each such assignment together with an instrument of assumption, and an Opinion of Counsel satisfactory to the Issuer that the provisions of this section 5.2(b) have been complied with.

SECTION 5.3. NOTICE AND CERTIFICATES TO TRUSTEE. The Company hereby agrees to provide the Trustee with the following:

(a) On or before the fifth (5th) Business Day following each Interest Payment Date while any of the Bonds are Outstanding, a certificate of an officer of the Company that all payments required under this Agreement have been made;

(b) Within one hundred twenty (120) days after the end of each fiscal year of the Company, (i) a certificate of an officer of the Company to the effect that all payments have been made under this Agreement and that, to the best of such officer's knowledge, there exists no Event of Default or event which, with the passage of time or the giving of notice, or both, would become an Event of Default, or, if any default or Event of Default exists, a description thereof and (ii) the audited annual report of the Company for such fiscal year; and

(c) Upon knowledge of an Event of Default under this Agreement or the Indenture, notice of such Event of Default, such notice to include a description of the nature of such event and what steps are being taken to remedy such Event of Default.

SECTION 5.4. MAINTENANCE AND REPAIR; TAXES; UTILITY AND OTHER CHARGES; INSURANCE. The Company agrees to maintain, to the extent permitted by applicable law and regulation, the Facilities, or cause the Facilities to be so maintained, during the term of this Agreement (i) in as reasonably safe condition as its operations shall permit and (ii) in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

The Company agrees to pay or cause to be paid during the term of this Agreement all taxes, governmental charges of any kind lawfully assessed or levied upon the Facilities or any part thereof, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Facilities and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Facilities, provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Company shall be obligated to pay only such installments as are required to be paid during the term of this Agreement. The Company may, at the Company's expense and in the Company's name, in good faith, contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during that period of such contest and any appeal therefrom unless by such nonpayment the Facilities or any part thereof will be subject to loss or forfeiture.

The Company agrees that it will keep, or cause to be kept, (i) the Facilities insured against such risks and in such

amounts as are consistent with its insurance practices for similar types of facilities (which may include self-insurance), and (ii) insurance against all direct or contingent loss or liability for personal injury, death or property damage occasioned by the operation of the Facilities, which insurance may be a part of the policy or policies of insurance customarily maintained by the Company in connection with its general property and liability insurance upon all of the plants and properties operated by it (including such deductibles as may be provided in said policies).

SECTION 5.5. QUALIFICATION IN NEVADA. The Company agrees that throughout the term of this Agreement it, or any successor or assignee as permitted by Section 5.2, will be qualified to do business in the State of Nevada.

SECTION 5.6. TAX EXEMPT STATUS OF BONDS. It is the intention of the Company that interest on the Bonds shall be and remain Tax-exempt. To that end the covenants and agreements of the Company in this Section are for the benefit of the Trustee and each and every holder of the Bonds.

The Company represents and warrants that substantially all of the proceeds of the Bonds will be used with respect to the Facilities as more specifically set forth in the Tax Certificate and the Engineering Certificate.

The Company covenants and agrees that it has not taken or permitted to be taken and will not take or permit to be taken any action which will cause the interest on the Bonds not to be Tax-exempt; provided that the Company shall not have violated this covenant if the interest on any of the Bonds becomes taxable to a person solely because such person is a "substantial user" of the Facilities or a "related person" within the meaning of Section 147(a) of the Code or Section 103(b) (13) of the 1954 Code, as applicable; and provided further that none of the covenants and agreements herein contained shall require the Company to enter an appearance or intervene in any administrative, legislative or judicial proceeding in connection with any changes in applicable laws, rules or regulations or in connection with any decisions of any court or administrative agency or other governmental body affecting the taxation of interest on the Bonds.

The Company acknowledges having read Section 5.08 of the Indenture and agrees to perform all duties imposed upon it by such Section 5.08 of the Indenture, by the Tax Certificate and by the Engineering Certificate. Insofar as said Section 5.08 of the Indenture, the Tax Certificate and the Engineering Certificate impose duties and responsibilities on the Company, they are specifically incorporated herein by reference.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

SECTION 6.1. EVENTS OF DEFAULT. Any one of the following which occurs and continues shall constitute an Event of Default:

(a) failure by the Company to pay any amounts required to be paid under Section 4.2(a) hereof which failure causes an Event of Default under the Indenture;

(b) failure of the Company to observe and perform any covenant, condition or agreement on its part required to be observed or performed by this Agreement, other than making the payments referred to in (a) above, which continues for a period of ninety (90) days after written notice, which notice shall specify such failure and request that it be remedied, given to the Company by the Issuer or the Trustee, unless the Issuer and the Trustee shall agree in writing to an extension of such time; provided, however, that if the failure stated in the notice can be corrected, but cannot be corrected within such period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within such period and diligently pursued until the default is corrected; or

(c) an Act of Bankruptcy of the Company.

The provisions of subsection (b) of this Section are subject to the limitation that the Company shall not be deemed in default if and so long as the Company is unable to carry out its agreements hereunder by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the States of Nevada or California or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Company; it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Company, unfavorable to the Company. This limitation shall not apply to any default under subsections (a) or (c) of this Section.

SECTION 6.2. REMEDIES ON DEFAULT. Whenever any Event of Default shall have occurred and shall continue:

(a) The Trustee, by written notice to the Company, shall declare the unpaid balance of the loan payable under Section 4.2(a) of this Agreement to be due and payable immediately, if concurrently with or prior to such notice the unpaid principal amount of the Bonds shall have been declared to be due and payable. Upon any such declaration such amount shall become and shall be immediately due and payable as set forth in Section 7.01 of the Indenture.

(b) The Trustee may have access to and may inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Company.

(c) The Issuer or the Trustee may take whatever action at law or in equity as may be necessary or desirable to collect the payments and other amounts then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Agreement.

In case the Trustee or the Issuer shall have proceeded to enforce its rights under this Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Issuer, then, and in every such case, the Company, the Trustee and the Issuer shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company, the Trustee and the Issuer shall continue as though no such action had been taken.

The Company covenants that, in case an Event of Default shall occur with respect to the payment of any Repayment Installment payable under Section 4.2(a) hereof, then, upon demand of the Trustee, the Company will pay to the Trustee the whole amount that then shall have become due and payable under said Section, with interest, to the extent permitted by law, on the amount then overdue at the rate of interest per annum borne by the Bonds until such amount has been paid.

In case the Company shall fail forthwith to pay such amounts upon such demand, the Trustee shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company and collect in the manner provided by law the moneys adjudged or decreed to be payable.

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Company under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Company or in the case of any other similar judicial

proceedings relative to the Company, or the creditors or property of the Company, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to this Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Company, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Indenture after the deduction of its charges and expenses. Any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized to make such payments to the Trustee, and to pay to the Trustee any amount due it for compensation and expenses, including expenses and fees of counsel incurred by it up to the date of such distribution.

SECTION 6.3. AGREEMENT TO PAY ATTORNEYS' FEES AND EXPENSES. In the event the Company should default under any of the provisions of this Agreement and the Issuer or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under this Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Company herein contained, the Company agrees to pay to the Issuer or the Trustee the reasonable fees of such attorneys and such other expenses so incurred by the Issuer or the Trustee.

SECTION 6.4. NO REMEDY EXCLUSIVE. No remedy herein conferred upon or reserved to the Issuer or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer or the Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Such rights and remedies as are given the Issuer hereunder shall also extend to the Trustee, and the Trustee and the holders of the Bonds shall be deemed third party beneficiaries of all covenants and agreements herein contained.

SECTION 6.5. NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER. In the event any agreement or covenant contained in this Agreement should be breached by the Company and thereafter waived by the Issuer or the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE VII

PREPAYMENT

SECTION 7.1. REDEMPTION OF BONDS WITH PREPAYMENT MONEYS. By virtue of the assignment of the rights of the Issuer under this Agreement to the Trustee as is provided in Section 4.4 hereof, the Company agrees to and shall pay directly to the Trustee any amount permitted or required to be paid by it under this Article VII. The Trustee shall use the moneys so paid to it by the Company to redeem the Bonds on the date set for such redemption pursuant to Section 7.5 hereof.

SECTION 7.2. OPTIONS TO PREPAY INSTALLMENTS. The Company shall have the option to prepay the amounts payable under Section 4.2 hereof with respect to the Bonds, in whole or in part, by paying to the Trustee, for deposit in the Bond Fund, the amount set forth in Section 7.4 hereof, under circumstances set forth in Sections 4.01(a) and 4.01(b) of the Indenture. The Company shall notify the Trustee and the Issuer in writing of its election to prepay the amounts payable hereunder and direct the Trustee to cause the Bonds to be redeemed on a date specified, which shall be at least forty-five (45) days after the date of such notice.

SECTION 7.3. MANDATORY PREPAYMENT. The Company shall have and hereby accepts the obligation to prepay Repayment Installments with respect to the Bonds to the extent mandatory redemption of the Bonds is required pursuant to Section 4.01(c) of the Indenture. The Company shall (i) satisfy its obligation hereunder by prepaying such Repayment Installments within one hundred eighty (180) days after the occurrence of a Determination of Taxability, in the case of mandatory redemption pursuant to Section 4.01(c) (i) of the Indenture; or (ii) be deemed to satisfy its obligation hereunder upon the transfer by the Trustee of remaining amounts on deposit in the Construction Fund to the Bond Fund, in the case of mandatory redemption pursuant to Section 4.01(c) (ii) of the Indenture, provided that within ten (10) days after such transfer the Company shall pay to the Trustee any additional amounts required pursuant to Section 3.4 or Section 7.4 hereof. The amount payable by the Company in the event of a prepayment required by this Section shall be determined as set forth in Section 7.4 hereof and shall be deposited in the Bond Fund.

SECTION 7.4. AMOUNT OF PREPAYMENT. In the case of a prepayment of the entire amount due hereunder with respect to the Bonds pursuant to Section 7.2 or 7.3 hereof, the amount to be paid shall be a sum sufficient, together with other funds and the yield on any securities deposited with the Trustee and available without reinvestment for such purpose, to pay (1) the principal of all Bonds Outstanding on the redemption date specified in the notice of redemption, plus interest accrued and to accrue to the payment or redemption date of the Bonds, plus premium, if any, required pursuant to the Indenture, (2) all reasonable and

necessary fees and expenses of the Issuer, the Trustee and any paying agent accrued and to accrue through final payment of the Bonds, and (3) all other liabilities of the Company accrued and to accrue with respect to the Bonds under this Agreement.

In the case of partial prepayment of the Repayment Installments pursuant to Section 7.2 or 7.3 hereof, the amount payable shall be a sum sufficient, together with other funds deposited with the Trustee and available without reinvestment for such purpose, to pay the principal amount of and premium, if any, and accrued interest on the Bonds to be redeemed, as provided in the Indenture, and to pay the expenses of redemption of the Bonds.

SECTION 7.5. NOTICE OF PREPAYMENT. To exercise an option granted in or to perform an obligation required by this Article VII, the Company shall give written notice to the Issuer and the Trustee at least fifteen (15) days prior to the last day by which the Trustee is permitted to give notice of redemption pursuant to Section 4.03 of the Indenture, specifying the date upon which any prepayment will be made. If, in the case of a mandatory prepayment pursuant to Section 7.3 hereof, the Company fails to give such notice of a prepayment required by this Section 7.5, such notice may be given by the Issuer, by the Trustee or by any holder or holders of ten percent (10%) or more in aggregate principal amount of the Bonds Outstanding. The Issuer and the Trustee, at the request of the Company or any such Bondholder, shall forthwith take all steps necessary under the applicable provisions of the Indenture to effect redemption of all or part of the then Outstanding Bonds, on the earliest practicable date thereafter on which such redemption may be made under applicable provisions of the Indenture (except that neither the Issuer nor the Trustee shall be required to make payment of any money required for such redemption).

ARTICLE VIII

NON-LIABILITY OF ISSUER; EXPENSES; INDEMNIFICATION

SECTION 8.1. NON-LIABILITY OF ISSUER. The Issuer shall not be obligated to pay the principal of, or premium, if any, or interest on the Bonds, except from Revenues. The Company hereby acknowledges that the Issuer's sole source of moneys to repay the Bonds will be provided by the payments made by the Company pursuant to this Agreement, together with other Revenues, including investment income on certain funds and accounts held by the Trustee under the Indenture, and hereby agrees that if the payments to be made hereunder shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Company shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including, but not

limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Company, the Issuer or any third party.

SECTION 8.2. EXPENSES. The Company covenants and agrees to pay and to indemnify the Issuer and the Trustee against all costs and charges, including reasonable fees and disbursements of attorneys, accountants, consultants and other experts, incurred in good faith in connection with this Agreement, the Bonds, the Indenture, the 1985 Bonds Escrow Agreement or the 1988 Bonds Escrow Agreement.

SECTION 8.3. INDEMNIFICATION. (a) The Company releases the Issuer from, and covenants and agrees that the Issuer shall not be liable for, and covenants and agrees, to the extent permitted by law, to indemnify and hold harmless the Issuer and its directors, officers, employees and agents from and against, any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from or in any way connected with (1) the Facilities, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the Facilities or any part thereof; (2) the issuance of any Bonds or any certifications, covenants or representations made in connection therewith and the carrying out of any of the transactions contemplated by the Bonds and this Agreement; (3) the Trustee's acceptance or administration of the trusts under the Indenture, or the exercise or performance of any of its powers or duties under the Indenture; or (4) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, in any limited offering memorandum, official statement or other offering circular utilized by the Issuer or any underwriter or placement agent in connection with the sale of any Bonds; provided that such indemnity shall not be required for damages that result from willful misconduct on the part of the party seeking such indemnity. The Company further covenants and agrees, to the extent permitted by law, to pay or to reimburse the Issuer and its officers, employees and agents for any and all costs, reasonable attorneys fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions, except to the extent that the same arise out of the willful misconduct of the party claiming such payment or reimbursement. The provisions of this paragraph shall survive the retirement of the Bonds.

(b) The Company releases the Trustee from, and covenants and agrees that the Trustee shall not be liable for, and covenants and agrees, to the extent permitted by law, to indemnify and hold harmless the Trustee and its directors, officers, employees and agents from and against, any and all

losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from or in any way connected with (1) the Facilities, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the Facilities or any part thereof; (2) the issuance of any Bonds or any certifications, covenants or representations made in connection therewith and the carrying out of any of the transactions contemplated by the Bonds and this Agreement; (3) the Trustee's acceptance or administration of the trusts under the Indenture, or the exercise or performance of any of its powers or duties under the Indenture; or (4) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, in any limited offering memorandum, official statement or other offering circular utilized by the Issuer or any underwriter or placement agent in connection with the sale of any Bonds; provided that such indemnity shall not be required for damages that result from negligence or willful misconduct on the part of the party seeking such indemnity. The Company further covenants and agrees, to the extent permitted by law, to pay or to reimburse the Trustee and its officers, employees and agents for any and all costs, reasonable attorneys fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions, except to the extent that the same arise out of the negligence or willful misconduct of the party claiming such payment or reimbursement. The provisions of this paragraph shall survive the retirement of the Bonds.

ARTICLE IX

MISCELLANEOUS

SECTION 9.1. NOTICES. All notices, certificates or other communications shall be deemed sufficiently given on the second day following the day on which the same have been mailed by certified mail, postage prepaid, addressed to the Issuer, the Company or the Trustee at the addresses specified in Section 11.07 of the Indenture. A duplicate copy of each notice, certificate or other communication given hereunder by either the Issuer or the Company to the other shall also be given to the Trustee. The Issuer, the Company, and the Trustee may, by notice given hereunder, designate any different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 9.2. SEVERABILITY. If any provision of this Agreement shall be held or deemed to be, or shall in fact be, illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the

same invalid, inoperative, or unenforceable to any extent whatever.

SECTION 9.3. EXECUTION OF COUNTERPARTS. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument; provided, however, that for purposes of perfecting a security interest in this Agreement by the Trustee under Article 9 of the Nevada Uniform Commercial Code, only the counterpart delivered, pledged, and assigned to the Trustee shall be deemed the original.

SECTION 9.4. AMENDMENTS, CHANGES AND MODIFICATIONS. Except as otherwise provided in this Agreement or the Indenture, subsequent to the initial issuance of Bonds and prior to their payment in full, or provision for such payment having been made as provided in the Indenture, this Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee.

SECTION 9.5. GOVERNING LAW. This Agreement shall be governed exclusively by and construed in accordance with the applicable laws of the State of Nevada.

SECTION 9.6. AUTHORIZED COMPANY REPRESENTATIVE. Whenever under the provisions of this Agreement the approval of the Company is required or the Company is required to take some action at the request of the Issuer, such approval or such request shall be given on behalf of the Company by the Authorized Company Representative, and the Issuer and the Trustee shall be authorized to act on any such approval or request and neither party hereto shall have any complaint against the other or against the Trustee as a result of any such action taken.

SECTION 9.7. TERM OF THE AGREEMENT. This Agreement shall be in full force and effect from the date hereof and shall continue in effect as long as any of the Bonds are Outstanding or the Trustee holds any moneys under the Indenture, whichever is later; provided, however, that the rights of the Trustee and the Issuer under Sections 8.2 and 8.3 hereof shall survive the termination of this Agreement, the retirement of the Bonds and the removal of the Trustee. All representations and certifications by the Company as to all matters affecting the Tax-exempt status of the Bonds shall survive the termination of this Agreement.

SECTION 9.8. BINDING EFFECT. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company and their respective successors and assigns; subject, however, to the limitations contained in Section 5.2 hereof.

SECTION 9.9. THIRD-PARTY BENEFICIARY. The Trustee is hereby named a third-party beneficiary to this Agreement to the extent the Company is required to indemnify, compensate or provides direction or information to the Trustee pursuant to the terms hereof.

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

CLARK COUNTY, NEVADA

By____________________________________
Chairman, Board of
County Commissioners

[SEAL]

Attest

____
County Clerk

SOUTHWEST GAS CORPORATION

By_____________________________________
Treasurer

[SEAL]

Attest:

____
Secretary

EXHIBIT A

DESCRIPTION OF THE FACILITIES

Description of the Existing Facilities

The Existing Facilities consist of (1) meters, customer service connections, mains, pressure regulators and other lower- pressure gas distribution facilities (generally having a maximum allowable operating pressure of less than [400] psig) by which the Company furnishes gas to customers located within its retail service area in Clark County, Nevada, together with other plant, property and equipment acquired, installed or constructed in connection therewith; (2) mains, pressure regulators, compressor facilities and other higher pressure gas transmission facilities (generally having a maximum allowable operating pressure of [400] psig and over) by which the Company transports gas to and within its retail customer service area in Clark County, Nevada, together with other plant, property and equipment acquired, installed or constructed in connection therewith; (3) an operations center complex, and related facilities, equipment and improvements in Clark County, Nevada; and (4) associated land and land-rights.

Description of the Project

The Project shall consist of those certain additions and improvements to the Company's natural gas distribution and transmission system through which the Company furnishes natural gas to its customers in Clark County, and certain other plant, property and equipment used or to be used for the same purposes.

EXHIBIT 10.04

FINANCING AGREEMENT

Between

CLARK COUNTY, NEVADA

And

SOUTHWEST GAS CORPORATION

____

Dated as of December 1, 1993

____

Relating to

$75,000,000

Clark County, Nevada
Industrial Development Revenue Bonds
(Southwest Gas Corporation)
1993 Series A

FINANCING AGREEMENT

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FINANCING AGREEMENT

THIS FINANCING AGREEMENT, dated as of December 1, 1993 (this "Agreement"), by and between CLARK COUNTY, NEVADA, a political subdivision of the State of Nevada (the "Issuer"), and SOUTHWEST GAS CORPORATION, a corporation organized and existing under the laws of the State of California and qualified to do business as a foreign corporation under the laws of the State of Nevada (the "Company"),

W I T N E S S E T H

WHEREAS, the Issuer is authorized and empowered under the County Economic Development Revenue Bond Law, Sections 244A.669 to 244A.763, inclusive, of the Nevada Revised Statutes, as amended (the "Act"), to borrow money and to issue bonds in accordance with the Act and to use the proceeds thereof for the purpose of financing all or part of the cost of certain facilities, including the cost of extending, adding to, or improving such facilities, and to make loans to any person, firm, corporation or other industrial entity for the planning, design, construction, acquisition or carrying out of any facilities in furtherance of the public purpose for which the Issuer was created; and

WHEREAS, the Issuer proposes to issue its Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation) 1993 Series A (the "Bonds"), in the aggregate principal amount of $75,000,000 upon the terms and conditions set forth in the Indenture of Trust, of even date herewith (the "Indenture"), between the Issuer and the Trustee, for the purposes, among others, of financing the costs of the acquisition, construction, improvement and equipping of certain real and personal properties, facilities, machinery and equipment described in Exhibit "A" hereto (the "Project"), which qualifies as a "project" under the Act;

NOW, THEREFORE, in consideration of the premises and the respective representations and covenants herein contained, the parties hereto agree as follows

ARTICLE I

DEFINITIONS

SECTION 1.1. DEFINITION OF TERMS. Unless the context otherwise requires, the terms used in this Agreement shall have the meanings specified in Section 1.01 of the Indenture, as originally executed or as the same may from time to time be supplemented or amended as provided therein.

SECTION 1.2. NUMBER AND GENDER. The singular form of any word used herein, including the terms defined in Section 1.01 of the Indenture, shall include the plural, and vice versa. The use herein of a word of any gender shall include all genders.

SECTION 1.3. ARTICLES, SECTIONS, ETC. Unless otherwise specified, references to Articles, Sections and other subdivisions of this Agreement are to the designated Articles, Sections and other subdivisions of this Agreement as originally executed. The words "hereof," "herein," "hereunder" and words of similar import refer to this Agreement as a whole. The headings or titles of the several articles and sections, and the table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the provisions hereof.

ARTICLE II

REPRESENTATIONS

SECTION 2.1. REPRESENTATIONS OF THE ISSUER. The Issuer makes the following representations as the basis for its undertakings herein contained:

(a) The Issuer is a political subdivision of the State of Nevada. Under the provisions of the Act, the Issuer has the power to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder. By proper action, the Issuer has been duly authorized to execute, deliver and duly perform this Agreement. To the extent the representations contained in the immediately preceding two sentences relate to powers granted to the Issuer under the Act, such representations are made in reliance on an opinion of Bond Counsel.

(b) To finance the Project the Issuer will issue the Bonds, which will mature, bear interest and be subject to redemption as provided in the Indenture.

(c) The Issuer has not pledged and will not pledge its interest in this Agreement for any purpose other than to secure the Bonds under the Indenture.

(d) The Issuer is not in default under any of the provisions of the laws of the State of Nevada which default would affect its existence or its powers referred to in subsection (a) of this Section 2.1.

(e) The Issuer has found and determined and hereby finds and determines that all requirements of the Act with respect to the issuance of the Bonds and the execution of this Agreement have been complied with and that financing the Project by issuing the Bonds and entering into this Agreement will be in furtherance of the purposes of the Act.

(f) On November 16, 1993, the Issuer adopted its Resolution No. 11-16-93-1 approving the issuance of the Bonds.

(g) No member, officer or other official of the Issuer who voted on the adoption of Resolution No. 11-16-93-1 has any interest whatsoever in this Agreement or in the transactions contemplated hereby.

SECTION 2.2. REPRESENTATIONS OF THE COMPANY. The Company makes the following representations as the basis for its undertakings herein contained:

(a) The Company is a corporation duly formed under the laws of the State of California, is in good standing in the State of California, is qualified to do business as a foreign corporation under the laws of the State of Nevada and has the corporate power to enter into and has duly authorized, by proper corporate action, the execution and delivery of this Agreement and all other documents contemplated hereby to be executed by the Company.

(b) Neither the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions hereof, conflict with or result in a breach of any of the terms, conditions or provisions of the Company's Articles of Incorporation or by-laws or of any corporate actions or of any agreement or instrument to which the Company is now a party or by which it is bound, or constitute a default (with due notice or the passage of time or both) under any of the foregoing, or result in the creation or imposition of any prohibited lien, charge or encumbrance whatsoever upon any of the property or assets of the Company under the terms of any instrument or agreement to which the Company is now a party or by which it is bound.

(c) The estimated cost of the Project is as set forth in the Tax Certificate and has been determined in accordance with sound engineering principles and certain other principles set forth in the Tax Certificate.

(d) The Project consists and will consist of those facilities described in Exhibit A hereto, and in the Southwest Gas Corporation Engineering Certificate dated December 15, 1993 (the "Engineering Certificate"), which is hereby incorporated by reference herein, and the Company shall make no changes to the Project or to the operation thereof which would affect the qualification of the Project under the Act or impair the Tax-exempt status of interest on the Bonds. In particular, the Company has complied and shall comply with all requirements set forth in the Tax Certificate. The Company intends to utilize the Project as facilities for the local furnishing of gas until the principal of, the premium, if any, and the interest on the Bonds shall have been paid.

(e) The Company has and will have title to the Project, and all necessary easements to install the Project, sufficient to carry out the purposes of this Agreement.

(f) At the time of submission of an application to the Issuer for financial assistance in connection with the Project and on the dates on which the Issuer took action on such application, permanent financing for the Project had not otherwise been obtained or arranged.

(g) All certificates, approvals, permits and authorizations with respect to the construction of the Project of agencies of applicable local governments, the States of Nevada and California and the federal government have been obtained or will be obtained in the normal course of business.

ARTICLE III

CONSTRUCTION OF THE PROJECT; AMENDMENT OF THE PROJECT; ISSUANCE OF THE BONDS

SECTION 3.1. AGREEMENT TO CONSTRUCT THE PROJECT; AMENDMENT OF THE PROJECT. The Company agrees that it will acquire, construct and install, or complete the acquisition, construction and installation of the Project, and will acquire, construct and install all other facilities and real and personal property deemed necessary for the operation of the Project, substantially in accordance with the plans and specifications prepared therefor by the Company and approved by the Issuer, including any and all supplements, amendments and additions or deletions thereto or therefrom, it being understood that the approval of the Issuer shall not be required for changes in such plans and specifications which do not alter the purpose and description of the Project as set forth in Exhibit A hereto. The Company further agrees to proceed with due diligence to complete the Project within three years from the date hereof.

In the event that the Company desires to amend or supplement the Project, and such amendment or supplement alters the purpose or description of the Project as described in Exhibit A hereto, and the Issuer approves of such amendment or supplement, the Issuer will enter into, and will instruct the Trustee in writing to consent to, such amendment or supplement upon receipt of:

(i) a certificate of the Authorized Company Representative describing in detail the proposed changes and stating that they will not have the effect of disqualifying the Project as a facility that may be financed pursuant to the Act;

(ii) a copy of the proposed form of amended or supplemented Exhibit A hereto; and

(iii) an opinion of Bond Counsel that such proposed changes will not affect the Tax-exempt status of interest on any of the Bonds.

SECTION 3.2. AGREEMENT TO ISSUE BONDS; APPLICATION OF BOND PROCEEDS. To provide funds to finance the Project as provided in Section 4.1 hereof, the Issuer agrees that it will issue under the Indenture, sell and cause to be delivered to the purchasers thereof, the Bonds, bearing interest and maturing as provided in the Indenture. The Issuer will thereupon deposit the proceeds received from the sale of the Bonds as provided in the Indenture.

SECTION 3.3 DISBURSEMENTS FROM THE CONSTRUCTION FUND AND COSTS OF ISSUANCE FUND. (a) The Company will authorize and direct the Trustee, upon compliance with Section 3.03 of the Indenture, to disburse the moneys in the Construction Fund to or on behalf of the Company only for the following purposes as permitted by the Engineering Certificate and the Tax Certificate (but not including payment of any Costs of Issuance), subject to the provisions of Section 5.6 hereof:

(i) Payment to the Company of such amounts, if any, as shall be necessary to reimburse the Company in full for all advances and payments made by it, at any time prior to or after the delivery of the Bonds, in connection with (1) the preparation of plans and specifications for the Project (including any preliminary study or planning of the Project or any aspect thereof), and (2) the acquisition, construction and installation of the Project.

(ii) Payment for labor, services, materials and supplies used by or furnished to the Company to improve the site and to acquire and construct the Project, as provided in the plans, specifications and work orders therefor; payment of the costs of acquiring, constructing and installing utility services or other related facilities; payment of the costs of acquiring all real and personal property deemed necessary to construct the Project; and payment of the miscellaneous expenses incidental to any of the foregoing items.

(iii) Payment of the fees, if any, of architects, engineers, legal counsel and supervisors expended in connection with the acquisition and construction of the Project.

(iv) Payment of assessments and other charges, if any, that may become payable during the Construction Period with respect to the Project, or reimbursement thereof, if paid by the Company.

(v) Payment of expenses incurred in seeking to enforce any remedy against any contractor or subcontractor in respect of any default under a contract relating to the acquisition, construction or installation of the Project.

(vi) Interest paid during the Construction Period and properly chargeable to the capital account of the Project.

(vii) Payment of any other Costs of the Project.

(b) All moneys remaining in the Construction Fund after the Completion Date and after payment or provision for payment of all other items provided for in subsection (a) of this Section shall be used in accordance with Section 3.03 of the Indenture.

(c) Each of the payments referred to in subsection (a) of this Section shall be made upon receipt by the Trustee of a written requisition in the form prescribed by Section 3.03 of the Indenture, signed by the Authorized Company Representative.

(d) The Company will authorize and direct the Trustee, upon compliance with Section 3.04 of the Indenture, to disburse the moneys in the Costs of Issuance Fund to or on behalf of the Company only for Costs of Issuance of the Bonds, subject to the provisions of Section 5.6 hereof. Each of the payments referred to in this Section 3.3(d) shall be made upon receipt by the Trustee of a written requisition in the form prescribed by Section 3.04 of the Indenture, signed by the Authorized Company Representative.

(e) The Trustee may rely on any written requisition delivered to it by the Company pursuant to paragraph (c) or (d) above as conclusive evidence that payment of the items listed therein is permitted by the Engineering Certificate and the Tax Certificate.

SECTION 3.4. ESTABLISHMENT OF COMPLETION DATE; OBLIGATION OF COMPANY TO COMPLETE. As soon as the Project is completed, the Authorized Company Representative, on behalf of the Company, shall evidence the Completion Date by providing a certificate to the Trustee and the Issuer stating the Cost of the Project and further stating that (i) construction of the Project has been completed substantially in accordance with the plans, specifications and work orders therefor, and all labor, services, materials and supplies used in construction have been paid for, and (ii) all other facilities necessary in connection with the Project have been acquired, constructed and installed in accordance with the plans and specifications and work orders therefor and all costs and expenses incurred in connection therewith have been paid. Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights of the Company against third parties for the payment of any amount not then due and payable which exist at the date of such certificate or which may subsequently exist.

At the time such certificate is delivered to the Trustee, moneys remaining in the Construction Fund, including any earnings resulting from the investment of such moneys, shall be transferred to the Surplus Account and used as provided in Section 3.03 of the Indenture. In the event that the amount on deposit in the Surplus Account after such transfer is insufficient to redeem Bonds in a principal amount divisible by Authorized Denominations, the Company shall pay to the Trustee for deposit in the Surplus Account the minimum amount which, together with amounts transferred from the Construction Fund to such account pursuant to Section 3.03 of the Indenture, shall be sufficient to redeem Bonds in the next largest principal amount divisible by Authorized Denominations.

In the event the moneys in the Construction Fund available for payment of the Cost of the Project should be insufficient to pay the costs thereof in full, the Company agrees to pay directly, or to deposit in the Construction Fund moneys sufficient to pay, any costs of completing the Project in excess of the moneys available for such purpose in the Construction Fund. The Issuer makes no express or implied warranty that the moneys deposited in the Construction Fund and available for payment of the Cost of the Project, under the provisions of this Agreement, will be sufficient to pay all the amounts which may be incurred for the Cost of the Project. The Company agrees that if, after exhaustion of the moneys in the Construction Fund, the Company should pay, or deposit moneys in the Construction Fund for the payment of, any portion of the Cost of the Project pursuant to the provisions of this Section, it shall not be entitled to any reimbursement therefor from the Issuer, from the Trustee or from the holders of any of the Bonds, nor shall it be entitled to any diminution of the amounts payable under Section 4.2 hereof.

SECTION 3.5. INVESTMENT OF MONEYS IN FUNDS. Any moneys in any fund held by the Trustee shall, at the written request of the Authorized Company Representative, be invested or reinvested by the Trustee as provided in the Indenture, subject to Section 5.6 hereof. Such investments shall be held by the Trustee and shall be deemed at all times a part of the fund from which such investments were made, and the interest accruing thereon, and any profit or loss realized therefrom, except as otherwise provided in the Indenture, shall be credited or charged to such fund.

ARTICLE IV

LOAN OF PROCEEDS; REPAYMENT PROVISIONS

SECTION 4.1. LOAN OF BOND PROCEEDS. The Issuer covenants and agrees, upon the terms and conditions in this Agreement, to make a loan to the Company for the purpose of financing the Project and paying Costs of Issuance. Pursuant to said covenant and agreement, the Issuer will issue the Bonds upon

the terms and conditions contained in this Agreement and the Indenture and will cause the Bond proceeds to be applied as provided in Article III of the Indenture. Such proceeds shall be disbursed as provided in Section 3.02 of the Indenture.

SECTION 4.2. REPAYMENT AND PAYMENT OF OTHER AMOUNTS PAYABLE. The Company agrees to make the payments required by subsections (a) through (d) of this Section as Repayment Installments on the loan to the Company from Bond proceeds pursuant to Section 4.1 hereof.

(a) The Company covenants and agrees to pay to the Trustee as a Repayment Installment on such loan, not later than each date provided in or pursuant to the Indenture for the payment of principal (whether at maturity or upon redemption or acceleration) of, premium, if any, and/or interest on the Bonds, until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, in immediately available funds, for deposit in the Bond Fund, a sum equal to the amount payable on such interest or principal payment or redemption or acceleration date as principal of (whether at maturity or upon redemption or acceleration), premium, if any, and interest upon the Bonds as provided in the Indenture.

Each payment pursuant to this Section 4.2(a) shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) and premium, if any, payable on the Bonds on the date of payment of principal or interest, as the case may be; provided that any amount held by the Trustee in the Bond Fund on any due date for a Repayment Installment hereunder shall be credited against the installment due on such date to the extent available for such purpose; and provided further that, subject to the provisions of this paragraph, if at any time the Company determines that amounts held by the Trustee in the Bond Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Bonds as such payments become due, the Company shall be relieved of any obligation to make any further payments under the provisions of this Section. Notwithstanding the foregoing, if on any date the amount held by the Trustee in the Bond Fund is insufficient to make any required payments of principal of (whether at maturity or upon redemption or acceleration) and interest and premium, if any, on the Bonds as such payments become due, the Company shall forthwith pay such deficiency as a Repayment Installment hereunder.

(b) The Company also agrees to pay to the Trustee until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made as required by the Indenture, (i) the annual fee of the Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses of the Trustee (including the

reasonable fees and expenses of its counsel), as provided in the Indenture, as and when the same become due, including fees, charges and expenses relating to the interpretation, enforcement or amendment of this Agreement or the Indenture, (iii) the cost of printing any Bonds required to be furnished by the Issuer, and (iv) any amounts required to be deposited in the Rebate Fund to comply with the provisions of Section 5.6 hereof. The Company will also pay reasonable fees, charges and expenses of the Trustee as required by the Indenture following provision for payment of the Bonds.

(c) The Company also agrees to pay, within sixty (60) days after receipt of request for payment thereof, all expenses required to be paid by the Company under the terms of the Bond Purchase Agreement, and all fees and reasonable expenses of the Issuer related to issuance of the Bonds or the interpretation, enforcement or amendment of this Agreement or the Indenture which are not otherwise required to be paid by the Company under the terms of this Agreement; provided that the Issuer shall have obtained the prior written approval of the Authorized Company Representative (which approval shall not be unreasonably withheld) for any expenditures other than those provided for herein or in the Bond Purchase Agreement.

(d) In the event the Company should fail to make any of the payments required by subsections (a) through (c) of this Section in respect of any Bonds, such payments shall continue as obligations of the Company until such amounts shall have been fully paid. The Company agrees to pay overdue payments under subsection (a) of this Section, together with interest thereon until paid, to the extent permitted by law, at the rate of interest per annum borne by the Bonds.

SECTION 4.3. UNCONDITIONAL OBLIGATION. The obligations of the Company to make the payments required by Section 4.2 hereof and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Issuer; and during the term of this Agreement, the Company shall pay absolutely net the payments to be made on account of the loan as prescribed in Section 4.2 and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of, premium, if any, and interest on the Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, the Company (i) will not suspend or discontinue any payments provided for in Section 4.2 hereof; (ii) will perform and observe all of its other covenants contained in this Agreement; and (iii) will not terminate this Agreement for any cause, including, without limitation, failure to complete the Project, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other

laws of the United States of America or of the State of Nevada or any political subdivision of either of these, or any failure of the Issuer or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement or the Indenture, except to the extent permitted by this Agreement.

SECTION 4.4. ASSIGNMENT OF ISSUER'S RIGHTS. As security for the payment of the Bonds, the Issuer will assign to the Trustee the Issuer's rights under this Agreement, including the right to receive payments hereunder (except the right of the Issuer to receive certain payments, if any, with respect to expenses and indemnification under Sections 4.2(c), 6.3, 8.2 and 8.3 hereof and the right of the Issuer to consent to amendments to the Project pursuant to Section 3.1 hereof), and the Issuer hereby directs the Company to make the payments required hereunder (except such payments for expenses and indemnification of the Issuer) directly to the Trustee. The Company hereby assents to such assignment and agrees to make payments directly to the Trustee without defense or set-off by reason of any dispute between the Company and the Issuer or the Trustee.

SECTION 4.5. AMOUNTS REMAINING IN FUNDS. It is agreed by the parties hereto that after payment in full of (i) the Bonds, or after provision for such payment shall have been made as provided in the Indenture, (ii) the fees, charges and expenses of the Trustee, any paying agents and the Issuer in accordance with the Indenture and (iii) all other amounts required to be paid under this Agreement and the Indenture, including, without limitation, amounts required to be paid from the Rebate Fund, any amounts remaining in any fund held by the Trustee under the Indenture shall belong to the Company and be paid to the Company by the Trustee.

ARTICLE V

SPECIAL COVENANTS AND AGREEMENTS

SECTION 5.1. RIGHT OF ACCESS TO THE PROJECT AND RECORDS. The Company agrees that during the term of this Agreement the Issuer, the Trustee and the duly authorized agents of either of them shall have the right at all reasonable times during normal business hours to examine the books and records of the Company with respect to the Project and to enter upon the site of the Project to examine and inspect the Project; provided, however, that this right is subject to federal and State of Nevada laws and regulations applicable to the site of the Project; and provided, further, that such right of access to the site of the Project shall not be construed to require the excavation of any subterranean portions of the Project or any other extraordinary measures which might disturb the Project's normal operation. The rights of access hereby reserved to the Issuer and the Trustee may be exercised only after such agent shall have executed release of liability and secrecy agreements

if requested by the Company in the form then currently used by the Company, and nothing contained in this Section or in any other provision of this Agreement shall be construed to entitle the Issuer or the Trustee to any information or inspection involving the confidential know-how of the Company.

SECTION 5.2. THE COMPANY'S MAINTENANCE OF ITS EXISTENCE; ASSIGNMENTS.

(a) The Company agrees that during the term of this Agreement it will maintain its corporate existence in good standing and will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate or merge into it; provided, that the Company may, without violating the covenants contained in this Section, consolidate with or merge into another corporation, or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets and thereafter dissolve, provided that (1) either (A) the Company is the surviving corporation or (B) the surviving, resulting or transferee corporation, as the case may be, (i) assumes and agrees in writing to pay and perform all of the obligations of the Company hereunder, and (ii) qualifies to do business in the State of Nevada; and (2) the Company shall deliver to the Trustee an opinion of Bond Counsel to the effect that such consolidation, merger or transfer and dissolution does not in and of itself adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(b) The rights and obligations of the Company under this Agreement may be assigned by the Company, with the written consent of the Issuer, in whole or in part subject, however, to each of the following conditions:

(i) No assignment (other than pursuant to a combination, consolidation or merger described in Section 5.2(a)) shall relieve the Company from primary liability for any of its obligations hereunder, and in the event of any assignment not pursuant to Section 5.2(a), the Company shall continue to remain primarily liable for the payments specified in Section 4.2 hereof and for performance and observance of the other agreements on its part herein provided to be performed and observed by it.

(ii) Any assignment from the Company shall retain for the Company such rights and interests as will permit it to perform its obligations under this Agreement, and any assignee from the Company shall assume the obligations of the Company hereunder to the extent of the interest assigned.

(iii) The Company shall, within thirty days after such assignment, furnish or cause to be furnished to the Issuer and the Trustee a true and complete copy of each such assignment together with an instrument of assumption.

(iv) The Company shall cause to be delivered to the Issuer and the Trustee an opinion of Bond Counsel that such assignment will not, in and of itself, result in the interest on the Bonds being determined to be includable in the gross income for federal income tax purposes of the owners thereof.

SECTION 5.3. NOTICE AND CERTIFICATES TO TRUSTEE. The Company hereby agrees to provide the Trustee with the following:

(a) On or before the fifth (5th) Business Day following each Interest Payment Date while any of the Bonds are Outstanding, a certificate of an Authorized Company Representative (which complies with Section 1.04 of the Indenture) that all payments required under this Agreement have been made;

(b) Within one hundred twenty (120) days after the end of each fiscal year of the Company, (i) a certificate of an Authorized Company Representative (which complies with Section 1.04 of the Indenture) to the effect that all payments have been made under this Agreement and that, to the best of such officer's knowledge, there exists no Event of Default or event which, with the passage of time or the giving of notice, or both, would become an Event of Default, or, if any default or Event of Default exists, a description thereof and (ii) the audited annual report of the Company for such fiscal year; and

(c) Upon knowledge of an Event of Default under this Agreement or the Indenture, notice of such Event of Default, such notice to include a description of the nature of such event and what steps are being taken to remedy such Event of Default.

SECTION 5.4. MAINTENANCE AND REPAIR; TAXES; UTILITY AND OTHER CHARGES; INSURANCE. The Company agrees to maintain, to the extent permitted by applicable law and regulation, the Project, or cause the Project to be so maintained, during the term of this Agreement (i) in as reasonably safe condition as its operations shall permit and (ii) in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

The Company agrees to pay or cause to be paid during the term of this Agreement all taxes, governmental charges of any kind lawfully assessed or levied upon the Project or any part thereof, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Project, provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Company shall be obligated to pay only such installments as are required to be

paid during the term of this Agreement. The Company may, at the Company's expense and in the Company's name, in good faith, contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during that period of such contest and any appeal therefrom unless by such nonpayment the Project or any part thereof will be subject to loss or forfeiture.

The Company agrees that it will keep, or cause to be kept, (i) the Project insured against such risks and in such amounts as are consistent with its insurance practices for similar types of facilities (which may include self-insurance), and (ii) insurance against all direct or contingent loss or liability for personal injury, death or property damage occasioned by the operation of the Project, which insurance may be a part of the policy or policies of insurance customarily maintained by the Company in connection with its general property and liability insurance upon all of the plants and properties operated by it (including such deductibles as may be provided in said policies).

SECTION 5.5. QUALIFICATION IN NEVADA. The Company agrees that throughout the term of this Agreement it, or any successor or assignee as permitted by Section 5.2, will be qualified to do business in the State of Nevada.

SECTION 5.6. TAX EXEMPT STATUS OF BONDS. It is the intention of the Company that interest on the Bonds shall be and remain Tax-exempt. To that end the covenants and agreements of the Company in this Section are for the benefit of the Trustee and each and every holder of the Bonds.

The Company represents and warrants that substantially all of the proceeds of the Bonds will be used with respect to the Project as more specifically set forth in the Tax Certificate and the Engineering Certificate.

The Company covenants and agrees that it has not taken or permitted to be taken and will not take or permit to be taken any action which will cause the interest on the Bonds not to be Tax-exempt; provided that the Company shall not have violated this covenant if the interest on any of the Bonds becomes taxable to a person solely because such person is a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code; and provided further that none of the covenants and agreements herein contained shall require the Company to enter an appearance or intervene in any administrative, legislative or judicial proceeding in connection with any changes in applicable laws, rules or regulations or in connection with any decisions of any court or administrative agency or other governmental body affecting the taxation of interest on the Bonds.

The Company acknowledges having read Section 5.08 of the Indenture and agrees to perform all duties imposed upon it by such Section 5.08 of the Indenture, by the Tax Certificate and by the Engineering Certificate. Insofar as said Section 5.08 of the Indenture, the Tax Certificate and the Engineering Certificate impose duties and responsibilities on the Company, they are specifically incorporated herein by reference.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

SECTION 6.1. EVENTS OF DEFAULT. Any one of the following which occurs and continues shall constitute an Event of Default:

(a) failure by the Company to pay any amounts required to be paid under Section 4.2(a) hereof when due;

(b) failure of the Company to observe and perform any covenant, condition or agreement on its part required to be observed or performed by this Agreement, other than making the payments referred to in (a) above, which continues for a period of ninety (90) days after written notice, which notice shall specify such failure and request that it be remedied, given to the Company by the Issuer or the Trustee, unless the Issuer and the Trustee shall agree in writing to an extension of such time; provided, however, that if the failure stated in the notice can be corrected, but cannot be corrected within such period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within such period and diligently pursued until the default is corrected; or

(c) an Act of Bankruptcy of the Company.

The provisions of subsection (b) of this Section are subject to the limitation that the Company shall not be deemed in default if and so long as the Company is unable to carry out its agreements hereunder by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the States of Nevada or California or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Company; it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement

of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Company, unfavorable to the Company. This limitation shall not apply to any default under subsections (a) or (c) of this Section.

SECTION 6.2. REMEDIES ON DEFAULT. Whenever any Event of Default shall have occurred and shall continue:

(a) The Trustee, by written notice to the Company, shall declare the unpaid balance of the loan payable under Section 4.2(a) of this Agreement to be due and payable immediately, if concurrently with or prior to such notice the unpaid principal amount of the Bonds shall have been declared to be due and payable. Upon any such declaration such amount shall become and shall be immediately due and payable as set forth in Section 7.01 of the Indenture.

(b) The Trustee may have access to and may inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Company.

(c) The Issuer or the Trustee may take whatever action at law or in equity as may be necessary or desirable to collect the payments and other amounts then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Agreement.

In case the Trustee or the Issuer shall have proceeded to enforce its rights under this Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Issuer, then, and in every such case, the Company, the Trustee and the Issuer shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company, the Trustee and the Issuer shall continue as though no such action had been taken.

The Company covenants that, in case an Event of Default shall occur with respect to the payment of any Repayment Installment payable under Section 4.2(a) hereof, then the Company will pay to the Trustee the whole amount that then shall have become due and payable under said Section, with interest, to the extent permitted by law, on the amount then overdue at the rate of interest per annum borne by the Bonds until such amount has been paid.

In case the Company shall fail forthwith to pay such amounts upon demand of the Trustee, the Trustee shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final

decree, and may enforce any such judgment or final decree against the Company and collect in the manner provided by law the moneys adjudged or decreed to be payable.

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Company under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Company or in the case of any other similar judicial proceedings relative to the Company, or the creditors or property of the Company, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to this Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Company, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Indenture after the deduction of its charges and expenses. Any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized to make such payments to the Trustee, and to pay to the Trustee any amount due it for compensation and expenses, including expenses and fees of counsel incurred by it up to the date of such distribution.

SECTION 6.3. AGREEMENT TO PAY ATTORNEYS' FEES AND EXPENSES. In the event the Company should default under any of the provisions of this Agreement and the Issuer or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under this Agreement or the Indenture or the enforcement of performance or observance of any obligation or agreement on the part of the Company herein contained, the Company agrees to pay to the Issuer and the Trustee the reasonable fees of their respective attorneys and such other expenses so incurred by the Issuer and the Trustee.

SECTION 6.4. NO REMEDY EXCLUSIVE. No remedy herein conferred upon or reserved to the Issuer or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer or the Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Such rights and remedies as are given the Issuer hereunder shall also extend to the Trustee, and the Trustee and the holders of the Bonds shall be deemed

third party beneficiaries of all covenants and agreements herein contained.

SECTION 6.5. NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER. In the event any agreement or covenant contained in this Agreement should be breached by the Company and thereafter waived by the Issuer or the Trustee, such waiver shall be a one-time waiver limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE VII

PREPAYMENT

SECTION 7.1. REDEMPTION OF BONDS WITH PREPAYMENT MONEYS. By virtue of the assignment of the rights of the Issuer under this Agreement to the Trustee as is provided in Section 4.4 hereof, the Company agrees to and shall pay directly to the Trustee any amount permitted or required to be paid by it under this Article VII. The Trustee shall use the moneys so paid to it by the Company to redeem the Bonds on the date set for such redemption pursuant to Section 7.5 hereof.

SECTION 7.2. OPTIONS TO PREPAY INSTALLMENTS. The Company shall have the option to prepay the amounts payable under Section 4.2 hereof with respect to the Bonds, in whole or in part, by paying to the Trustee, for deposit in the Bond Fund, the amount set forth in Section 7.4 hereof, under circumstances set forth in Sections 4.01(a) and 4.01(b) of the Indenture. The Company shall notify the Trustee and the Issuer in writing of its election to prepay the amounts payable hereunder and direct the Trustee to cause the Bonds to be redeemed on a date specified, which shall be at least forty-five (45) days after the date of such notice.

SECTION 7.3. MANDATORY PREPAYMENT. The Company shall have and hereby accepts the obligation to prepay Repayment Installments with respect to the Bonds to the extent mandatory redemption of the Bonds is required pursuant to Section 4.01(c) of the Indenture. The Company shall (i) satisfy its obligation hereunder by prepaying such Repayment Installments within one hundred eighty (180) days after the occurrence of a Determination of Taxability, in the case of mandatory redemption pursuant to Section 4.01(c)(i) of the Indenture; or (ii) be deemed to satisfy its obligation hereunder upon the transfer by the Trustee of remaining amounts on deposit in the Construction Fund to the Bond Fund, in the case of mandatory redemption pursuant to Section 4.01(c)(ii) of the Indenture, provided that within ten (10) days after such transfer the Company shall pay to the Trustee any additional amounts required pursuant to Section 3.4 or Section 7.4 hereof. The amount payable by the Company in the event of a prepayment required by this Section shall be determined as set forth in Section 7.4 hereof and shall be deposited in the Bond Fund.

SECTION 7.4. AMOUNT OF PREPAYMENT. In the case of a prepayment of the entire amount due hereunder with respect to the Bonds pursuant to Section 7.2 or 7.3 hereof, the amount to be paid shall be a sum sufficient, together with other funds and the yield on any securities deposited with the Trustee and available without reinvestment for such purpose, to pay (1) the principal of all Bonds Outstanding on the redemption date specified in the notice of redemption, plus interest accrued and to accrue to the payment or redemption date of the Bonds, plus premium, if any, required pursuant to the Indenture, (2) all reasonable and necessary fees and expenses of the Issuer, the Trustee and any paying agent accrued and to accrue through final payment of the Bonds, and (3) all other liabilities of the Company accrued and to accrue with respect to the Bonds under this Agreement.

In the case of partial prepayment of the Repayment Installments pursuant to Section 7.2 or 7.3 hereof, the amount payable shall be a sum sufficient, together with other funds deposited with the Trustee and available without reinvestment for such purpose, to pay the principal amount of and premium, if any, and accrued interest on the Bonds to be redeemed, as provided in the Indenture, and to pay the expenses of redemption of the Bonds.

SECTION 7.5. NOTICE OF PREPAYMENT. To exercise an option granted in or to perform an obligation required by this Article VII, the Company shall give written notice to the Issuer and the Trustee at least fifteen (15) days prior to the last day by which the Trustee is permitted to give notice of redemption pursuant to Section 4.03 of the Indenture, specifying the date upon which any prepayment will be made. If, in the case of a mandatory prepayment pursuant to Section 7.3 hereof, the Company fails to give such notice of a prepayment required by this Section 7.5, such notice may be given by the Issuer, by the Trustee or by any holder or holders of ten percent (10%) or more in aggregate principal amount of the Bonds Outstanding. The Issuer and the Trustee, at the request of the Company or any such Bondholder, shall forthwith take all steps necessary under the applicable provisions of the Indenture to effect redemption of all or part of the then Outstanding Bonds, on the earliest practicable date thereafter on which such redemption may be made under applicable provisions of the Indenture (except that neither the Issuer nor the Trustee shall be required to make payment of any money required for such redemption).

ARTICLE VIII

NON-LIABILITY OF ISSUER; EXPENSES; INDEMNIFICATION

SECTION 8.1. NON-LIABILITY OF ISSUER. The Issuer shall not be obligated to pay the principal of, or premium, if any, or interest on the Bonds, except from Revenues. The Company hereby acknowledges that the Issuer's sole source of moneys to repay the Bonds will be provided by the payments made by the

Company pursuant to this Agreement, together with other Revenues, including investment income on certain funds and accounts held by the Trustee under the Indenture, and hereby agrees that if the payments to be made hereunder shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Company shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Company, the Issuer or any third party.

SECTION 8.2. EXPENSES. The Company covenants and agrees to pay and to indemnify the Issuer and the Trustee against all costs and charges, including reasonable fees and disbursements of attorneys, accountants, consultants and other experts, incurred in good faith in connection with this Agreement, the Bonds or the Indenture.

SECTION 8.3. INDEMNIFICATION. (a) The Company releases the Issuer from, and covenants and agrees that the Issuer shall not be liable for, and covenants and agrees, to the extent permitted by law, to indemnify and hold harmless the Issuer and its directors, officers, employees and agents from and against, any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from or in any way connected with (1) the Project, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the Project or any part thereof; (2) the issuance of any Bonds or any certifications, covenants or representations made in connection therewith and the carrying out of any of the transactions contemplated by the Bonds and this Agreement; (3) the Trustee's acceptance or administration of the trusts under the Indenture, or the exercise or performance of any of its powers or duties under the Indenture; or (4) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, in any limited offering memorandum, official statement or other offering circular utilized by the Issuer or any underwriter or placement agent in connection with the sale of any Bonds; provided that such indemnity shall not be required for damages that result from willful misconduct on the part of the party seeking such indemnity. The Company further covenants and agrees, to the extent permitted by law, to pay or to reimburse the Issuer and its officers, employees and agents for any and all costs, reasonable attorneys fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions, except to the extent that the same arise out of the willful misconduct of the party

claiming such payment or reimbursement. The provisions of this paragraph shall survive the retirement of the Bonds.

(b) The Company releases the Trustee from, and covenants and agrees that the Trustee shall not be liable for, and covenants and agrees, to the extent permitted by law, to indemnify and hold harmless the Trustee and its directors, officers, employees and agents from and against, any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from or in any way connected with (1) the Project, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the Project or any part thereof; (2) the issuance of any Bonds or any certifications, covenants or representations made in connection therewith and the carrying out of any of the transactions contemplated by the Bonds and this Agreement; (3) the Trustee's acceptance or administration of the trusts under the Indenture, or the exercise or performance of any of its powers or duties under the Indenture; or (4) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, in any limited offering memorandum, official statement or other offering circular utilized by the Issuer or any underwriter or placement agent in connection with the sale of any Bonds; provided that such indemnity shall not be required for damages that result from negligence or willful misconduct on the part of the party seeking such indemnity. The Company further covenants and agrees, to the extent permitted by law, to pay or to reimburse the Trustee and its officers, employees and agents for any and all costs, reasonable attorneys fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions, except to the extent that the same arise out of the negligence or willful misconduct of the party claiming such payment or reimbursement. The provisions of this paragraph shall survive the retirement of the Bonds.

ARTICLE IX

MISCELLANEOUS

SECTION 9.1. NOTICES. All notices, certificates or other communications shall be deemed sufficiently given on the second day following the day on which the same have been mailed by first-class mail, postage prepaid, or by telecopy or similar facsimile transmission capable of making a written record, addressed to the Issuer, the Company or the Trustee at the addresses specified in Section 11.07 of the Indenture. A duplicate copy of each notice, certificate or other communication given hereunder by either the Issuer or the Company to the other

shall also be given to the Trustee. The Issuer, the Company, and the Trustee may, by notice given hereunder, designate any different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 9.2. SEVERABILITY. If any provision of this Agreement shall be held or deemed to be, or shall in fact be, illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative, or unenforceable to any extent whatever.

SECTION 9.3. EXECUTION OF COUNTERPARTS. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument; provided, however, that for purposes of perfecting a security interest in this Agreement by the Trustee under Article 9 of the Nevada Uniform Commercial Code, only the counterpart delivered, pledged, and assigned to the Trustee shall be deemed the original.

SECTION 9.4. AMENDMENTS, CHANGES AND MODIFICATIONS. Except as otherwise provided in this Agreement or the Indenture, subsequent to the initial issuance of Bonds and prior to their payment in full, or provision for such payment having been made as provided in the Indenture, this Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee.

SECTION 9.5. GOVERNING LAW. This Agreement shall be governed exclusively by and construed in accordance with the applicable laws of the State of Nevada, except that any obligations and duties of the Trustee shall be governed by the laws of the State of New York.

SECTION 9.6. AUTHORIZED COMPANY REPRESENTATIVE. Whenever under the provisions of this Agreement the approval of the Company is required or the Issuer or the Trustee is required to take some action at the request of the Company, such approval or such request shall be given on behalf of the Company by the Authorized Company Representative, and the Issuer and the Trustee shall be authorized to act on any such approval or request without liability and neither party hereto shall have any complaint against the other or against the Trustee as a result of any such action taken.

SECTION 9.7. TERM OF THE AGREEMENT. This Agreement shall be in full force and effect from the date hereof and shall continue in effect as long as any of the Bonds are Outstanding or the Trustee holds any moneys under the Indenture, whichever is later; provided, however, that the rights of the Trustee and the Issuer under Sections 8.2 and 8.3 hereof shall survive the termination of this Agreement, the retirement of the Bonds and the removal of the Trustee. All representations and certifications by the Company as to all matters affecting the

Tax-exempt status of the Bonds shall survive the termination of this Agreement.

SECTION 9.8. BINDING EFFECT. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company and their respective successors and assigns; subject, however, to the limitations contained in Section 5.2 hereof.

SECTION 9.9. THIRD-PARTY BENEFICIARY. The Trustee is hereby named a third-party beneficiary to this Agreement to the extent the Company is required to indemnify, compensate or provides direction or information to the Trustee pursuant to the terms hereof.

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

CLARK COUNTY, NEVADA

By ____________________________
Chairman, Board of
County Commissioners

[SEAL]

Attest

____
County Clerk

SOUTHWEST GAS CORPORATION

By ____________________________
Treasurer

[SEAL]

Attest:

____
Secretary

EXHIBIT A

DESCRIPTION OF THE PROJECT

Description of the Project

The Project shall consist of those certain additions and improvements to, and replacements of, the Company's natural gas distribution and transmission system through which the Company furnishes natural gas to its customers in Clark County, and certain other plant, property and equipment used or to be used for the same purposes. The Project includes, without limitation, meters, customer service connections, mains, pressure regulators and other additions and improvements to, and replacements of, the facilities which comprise the Company's natural gas distribution and transmission system, including associated land and land rights.

EXHIBIT 10.05

PROJECT AGREEMENT

Between

CITY OF BIG BEAR LAKE

And

SOUTHWEST GAS CORPORATION

Dated as of December 1, 1993

Relating to

$50,000,000
City of Big Bear Lake
Industrial Development Revenue Bonds
(Southwest Gas Corporation Project)
1993 Series A

PROJECT AGREEMENT

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PROJECT AGREEMENT

THIS PROJECT AGREEMENT, dated as of December 1, 1993, by and between the CITY OF BIG BEAR LAKE, a municipal corporation and charter city duly organized and existing under the laws and Constitution of the State of California (the "City"), and SOUTHWEST GAS CORPORATION, a corporation organized and existing under the laws of the State of California (the "Borrower"),

W I T N E S S E T H :

WHEREAS, the City is a municipal corporation and charter city, duly organized and existing under a freeholders' charter pursuant to which the City has the right and power to make and enforce all laws and regulations in accordance with and as more particularly provided in Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and Section 200 of the Charter of the City (the "Charter"); and

WHEREAS, the City Council of the City, acting under and pursuant to the powers reserved to the City under Sections 3, 5 and 7 of Article XI of the Constitution and Section 200 of the Charter, has enacted Ordinance No. 84-106, adopted on May 9, 1984, as amended from time to time (the "Law"), establishing a program to provide financial assistance for the acquisition, construction, improvement and installation of facilities for the local furnishing of gas; and

WHEREAS, the Borrower has duly requested that the City provide the Borrower with financial assistance to acquire, construct, improve and install certain facilities for the local furnishing of gas as more fully described in Exhibit A hereto (the "Project"); and

WHEREAS, the City after due investigation and deliberation has adopted its Resolution No. 93-35 authorizing the issuance of City of Big Bear Lake Industrial Development Revenue Bonds (Southwest Gas Corporation Project) 1993 Series A in an aggregate principal amount not to exceed $50,000,000 (the "Bonds") to finance the Project; and

WHEREAS, the City proposes to assist in financing the Project upon the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the respective representations and covenants herein contained, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. DEFINITION OF TERMS. Unless the context otherwise requires, the terms used in this Agreement shall have the meanings specified in Section 1.01 of the Indenture of Trust, of even date herewith relating to the Bonds (the "Indenture"), by and between the City and Harris Trust and Savings Bank, as trustee (the "Trustee"), as originally executed or as it may from time to time be supplemented or amended as provided therein.

SECTION 1.2. NUMBER AND GENDER. The singular form of any word used herein, including the terms defined in Section 1.01 of the Indenture, shall include the plural, and vice versa. The use herein of a word of any gender shall include all genders.

SECTION 1.3. ARTICLES, SECTIONS, ETC. Unless otherwise specified, references to Articles, Sections and other subdivisions of this Agreement are to the designated Articles, Sections and other subdivisions of this Agreement as originally executed. The words "hereof," "herein," "hereunder" and words of similar import refer to this Agreement as a whole. The headings or titles of the several articles and sections, and the table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the provisions hereof.

ARTICLE II

REPRESENTATIONS

SECTION 2.1. REPRESENTATIONS OF THE CITY. The City makes the following representations as the basis for its undertakings herein contained:

(a) The City is a municipal corporation and charter city in the State of California. Under the provisions of the Law, the City has the power to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder. The financing of the Project constitutes a "project" as that term is defined in the Law. By proper action, the City has been duly authorized to execute, deliver and duly perform this Agreement and the Indenture.

(b) To finance the cost of the Project, the City will issue the Bonds which will mature, bear interest and be subject to redemption as set forth in the Indenture.

(c) The Bonds will be issued under and secured by the Indenture, pursuant to which the City's interest in this Agreement (except certain rights of the City to give approvals and consents and to receive payment for expenses and indemnification and certain other payments) will be pledged to

the Trustee as security for payment of the principal of, premium, if any, and interest on the Bonds.

(d) The City has not pledged and will not pledge its interest in this Agreement for any purpose other than to secure the Bonds under the Indenture.

(e) The City is not in default under any of the provisions of the laws of the State of California or the City's Charter which default would affect its existence or its powers referred to in subsection (a) of this Section 2.1.

(f) The City has found and determined and hereby finds and determines that all requirements of the Law with respect to the issuance of the Bonds and the execution of this Agreement and the Indenture have been complied with and that financing the Project by issuing the Bonds and entering into this Agreement and the Indenture will be in furtherance of the purposes of the Law.

(g) On June 2, 1993, the City Council of the City adopted Resolution No. 93-35 authorizing the issuance of the Bonds.

SECTION 2.2. REPRESENTATIONS OF THE BORROWER. The Borrower makes the following representations as the basis for its undertakings herein contained:

(a) The Borrower is a corporation duly formed under the laws of the State of California, is in good standing in the State of California and has the power to enter into and has duly authorized, by proper corporate action, the execution and delivery of this Agreement and all other documents contemplated hereby to be executed by the Borrower.

(b) Neither the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions hereof, conflicts with or results in a breach of any of the terms, conditions or provisions of the Borrower's Articles of Incorporation or By-laws or of any corporate actions or of any agreement or instrument to which the Borrower is now a party or by which it is bound, or constitutes a default (with due notice or the passage of time or both) under any of the foregoing, or results in the creation or imposition of any prohibited lien, charge or encumbrance whatsoever upon any of the property or assets of the Borrower under the terms of any instrument or agreement to which the Borrower is now a party or by which it is bound.

(c) The estimated cost of the Project is as set forth in the Tax Certificate and has been determined in accordance with sound engineering principles and certain other principles set forth in the Tax Certificate.

(d) The Project consists and will consist of those facilities described in Exhibit A hereto, and the Borrower shall make no changes to such portion of the Project or to the operation thereof which would affect the qualification of the Project as a "project" under the Law or impair the exemption from gross income of the interest on the Bonds for federal income tax purposes. In particular, the Borrower shall comply with all requirements of the Southwest Gas Corporation Engineering and Financial Certificate, dated the Issue Date (the "Engineering Certificate"), which is hereby incorporated by reference herein. The Project consists of facilities for the local furnishing of gas as described in the Engineering Certificate. The Borrower intends to utilize the Project as facilities for the local furnishing of gas throughout the foreseeable future.

(e) The Borrower has and will have title to the Project sufficient to carry out the purposes of this Agreement.

(f) The economic useful life of the Project is no less than the economic useful life set forth in the Engineering Certificate.

(g) All certificates, approvals, permits and authorizations with respect to the construction of the Project of agencies of applicable local governmental agencies, the State of California and the federal government have been obtained or are believed to be readily obtainable; and the Project will be constructed and operated pursuant to such certificates, approvals, permits and authorizations.

ARTICLE III

ISSUANCE OF THE BONDS; APPLICATION OF PROCEEDS

SECTION 3.1. AGREEMENT TO ISSUE BONDS; APPLICATION OF BOND PROCEEDS. To provide funds to finance the cost of the Project, the City agrees that it will issue under the Indenture, sell and cause to be delivered to the purchasers thereof, the Bonds, bearing interest as provided and maturing on the date set forth in the Indenture. The City will thereupon apply the proceeds received from the sale of the Bonds as provided in the Indenture.

SECTION 3.2. AGREEMENT TO CONSTRUCT PROJECT; AMENDMENT OF DESCRIPTION OF THE PROJECT. The Borrower agrees that it will acquire, construct and install, or complete the acquisition, construction and installation of the Project, and will acquire, construct and install all other facilities and real and personal property deemed necessary for the operation of the Project, substantially in accordance with the plans and specifications prepared therefor by the Borrower and approved by the City, including any and all supplements, amendments and additions or deletions thereto or therefrom, it being understood that the approval of the City shall not be required for changes in such

plans and specifications which do not alter the purpose and description of the Project as set forth in Exhibit A hereto. The Borrower further agrees to proceed with due diligence to complete the Project within three years from the date hereof.

In the event that the Borrower desires to amend or supplement the Project, as described in Exhibit A hereto, and the City approves of such amendment or supplement, the City will enter into, and will instruct the Trustee in writing to consent to, such amendment or supplement upon receipt of:

(i) a certificate of an Authorized Borrower Representative describing in detail the proposed changes and stating that they will not have the effect of disqualifying any component of the Project as a project that may be financed pursuant to the Law;

(ii) a copy of the proposed form of amended or supplemented Exhibit A hereto; and

(iii) an opinion of Bond Counsel that such proposed changes will not affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

SECTION 3.3. DISBURSEMENTS FROM THE CONSTRUCTION FUND. The Borrower will authorize and direct the Trustee, upon compliance with Section 3.03 of the Indenture, to disburse the moneys in the Construction Fund to or on behalf of the Borrower only for the following purposes, subject to the provisions of Section 5.6 hereof and the Tax Certificate:

(a) Payment to the Borrower of such amounts, if any, as shall be necessary to reimburse the Borrower in full for all advances and payments made by it, at any time prior to or after the delivery of the Bonds, in connection with (i) the preparation of plans and specifications for the Project (including any preliminary study or planning of the Project or any aspect thereof) and (ii) the acquisition, construction and installation of the Project.

(b) Payment of the initial or acceptance fee of the Trustee, the fees of the Trustee and any tender agent, remarketing agent or paying agent incurred during the Construction Period, all legal, underwriting, financial consulting, accounting and rating agency fees and expenses and printing and engraving costs incurred by the Borrower or any other person in connection with the authorization, sale and issuance of the Bonds, the execution of the Indenture and the preparation of all other documents in connection therewith; and payment of all fees, costs and expenses incurred by the Borrower or any other person with respect to the preparation of this Agreement, the Indenture, the Bonds, the Credit Facility and all other documents in connection therewith.

(c) Payment for labor, services, materials and supplies used by or furnished to the Borrower to improve the site and to acquire and construct the Project, as provided in the plans, specifications and work orders therefor; payment of the costs of acquiring, constructing, and installing utility services or other related facilities; payment of the costs of acquiring all real and personal property deemed necessary to construct the Project; and payment of the miscellaneous expenses incidental to any of the foregoing items.

(d) Payment of the fees, if any, of architects, engineers, legal counsel and supervisors expended in connection with the acquisition and construction of the Project.

(e) Payment of the taxes, assessments and other charges, if any, that are incurred during the Construction Period with respect to the Project, or reimbursement thereof, if paid by the Borrower.

(f) Payment of expenses incurred in seeking to enforce any remedy against any contractor or subcontractor in respect of any default under a contract relating to the acquisition, construction or installation of the Project.

(g) Payment of interest accruing on the Bonds during the Construction Period (including reimbursement of amounts drawn under any Credit Facility to pay such interest) and fees of the Credit Provider and its counsel attributable to the cost of providing the Credit Facility during the Construction Period.

(h) Payment of any amount payable to the Rebate Fund, pursuant to the Tax Certificate, Section 5.6 hereof and Section 6.06 of the Indenture.

All moneys remaining in the Construction Fund after the Completion Date and after payment or provision for payment of all other items provided for in the preceding subsections (a) to (g), inclusive, of this Section, shall be used in accordance with Section 3.03 of the Indenture.

Each of the payments referred to in this Section shall be made upon receipt by the Trustee of a written requisition in the substantially the form attached to this Agreement as Exhibit B, signed by an Authorized Borrower Representative.

SECTION 3.4. ESTABLISHMENT OF COMPLETION DATE; OBLIGATION OF BORROWER TO COMPLETE. Upon completion of the Project, the Borrower shall evidence the Completion Date by providing to the Trustee and the City a certificate of an Authorized Borrower Representative stating the Cost of the Project and further stating that (i) construction of the Project has been completed substantially in accordance with the plans, specifications and work orders therefor, and all labor, services, materials and supplies used in construction have been paid for, and (ii) all other facilities necessary in connection with the

Project have been acquired, constructed and installed in accordance with the plans and specifications and work orders therefor and all costs and expenses incurred in connection therewith have been paid. Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights of the Borrower against third parties for the payment of any amount not then due and payable which exist at the date of such certificate or which may subsequently exist.

At the time such certificate is delivered to the Trustee, any moneys remaining in the Construction Fund, including any earnings resulting from the investment of such moneys, shall be transferred to the Surplus Account and used as provided in Section 3.03 of the Indenture. In the event that the amount on deposit in the Surplus Account after such transfer is insufficient to redeem Bonds in a principal amount divisible by Authorized Denominations, the Borrower shall pay to the Trustee for deposit in the Surplus Account the minimum amount which, together with amounts transferred from the Construction Fund to such account pursuant to Section 3.03 of the Indenture, shall be sufficient to redeem Bonds in the next largest principal amount divisible by Authorized Denominations.

In the event the moneys in the Construction Fund available for payment of the Cost of the Project should be insufficient to pay the costs thereof in full, the Borrower agrees to pay directly, or to deposit in the Construction Fund moneys sufficient to pay, any costs of completing the Project in excess of the moneys available for such purpose in the Construction Fund. The City makes no express or implied warranty that the moneys deposited in the Construction Fund and available for payment of the Cost of the Project, under the provisions of this Agreement, will be sufficient to pay all the amounts which may be incurred for such Cost of the Project. The Borrower agrees that if, after exhaustion of the moneys in the Construction Fund, the Borrower should pay any portion of the Cost of the Project pursuant to the provisions of this Section, it shall not be entitled to any reimbursement therefor from the City, from the Trustee or from the holders of any of the Bonds, nor shall it be entitled to any diminution of the amounts payable under Section 4.2 hereof.

SECTION 3.5. INVESTMENT OF MONEYS IN FUNDS. Any moneys in any fund held by the Trustee shall, at the written request of an Authorized Borrower Representative, be invested or reinvested by the Trustee as provided in the Indenture, subject to Section 5.6 hereof. Such investments shall be held by the Trustee and shall be deemed at all times a part of the fund from which such investments were made, and the interest accruing thereon and any profit or loss realized therefrom shall, except as otherwise provided in the Indenture, be credited or charged to such fund.

ARTICLE IV

LOAN TO BORROWER; REPAYMENT PROVISIONS

SECTION 4.1. LOAN TO BORROWER. The City covenants and agrees, upon the terms and conditions in this Agreement, to make a loan to the Borrower for the purpose of financing the Cost of the Project. Pursuant to said covenant and agreement, the City will issue the Bonds upon the terms and conditions contained in this Agreement and the Indenture and will cause the Bond proceeds to be applied as provided in Article III thereof. Except as provided in Section 3.02 of the Indenture, such proceeds shall be disbursed to or on behalf of the Borrower as provided in Section 3.3 hereof. The City and the Borrower agree that the application of the proceeds of sale of the Bonds to finance a portion of the Costs of the Project as provided in this Agreement and the Indenture will be deemed to be and treated for all purposes as a loan to the Borrower of an amount equal to the principal amount of the Bonds.

SECTION 4.2. REPAYMENT AND PAYMENT OF OTHER AMOUNTS PAYABLE. To evidence, secure and provide for the repayment of the loan made hereunder, the Borrower shall concurrently with the execution hereof deliver (or cause to be delivered) to the Trustee the Letter of Credit as the initial Credit Facility. In addition, the Borrower agrees to make the payments required by subsection (a) through (d) of this Section as Repayment Installments on such loan.

(a) The Borrower hereby authorizes and directs the Trustee to draw or demand payment of moneys under the Credit Facility (if any shall then be in effect) in accordance with the provisions of the Indenture and such Credit Facility at the times and in the amounts necessary to pay the principal of, premium, if any (if covered by such Credit Facility), and interest on the Bonds if and when due. Solely to the extent that the proceeds of such drawing or payment under such Credit Facility, if any, are insufficient to make such payments when due, the Borrower covenants and agrees to pay to the Trustee as a Repayment Installment on the loan to the Borrower pursuant to Section 4.1 hereof, on each date provided in or pursuant to the Indenture for the payment of principal (whether at maturity or upon redemption or acceleration) of, premium, if any, and/or interest on the Bonds, until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, in immediately available funds, for deposit in the Bond Fund, a sum equal to the amount then payable as principal (whether at maturity or upon redemption or acceleration), premium, if any, and interest upon the Bonds as provided in the Indenture.

Each payment pursuant to any Credit Facility, together with any other payments required to be made by the Borrower pursuant to this Section 4.2(a), shall at all times be sufficient to pay the total amount of interest and principal (whether at

maturity or upon redemption or acceleration) and premium, if any, then payable on the Bonds; provided that any amount held by the Trustee in the Bond Fund on any due date for a Repayment Installment hereunder shall be credited against the installment due on such date to the extent available for such purpose; and provided further that, subject to the provisions of this paragraph, if at any time the amounts held by the Trustee in the Bond Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Bonds as such payments become due, the Borrower shall be relieved of any obligation to make any further payments under the provisions of this Section. Notwithstanding the foregoing, if on any date the amount held by the Trustee in the Bond Fund is insufficient to make any required payments of principal of (whether at maturity or upon redemption or acceleration) and interest and premium, if any, on the Bonds as such payments become due, the Borrower shall forthwith pay such deficiency as a Repayment Installment hereunder.

(b) The Borrower also agrees to pay to the Trustee until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made as required by the Indenture, (i) the annual fee of the Trustee for its ordinary services rendered as trustee, and its ordinary expenses (including reasonable fees and expenses of counsel) incurred under the Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses of the Trustee, the Registrar and the reasonable fees of any paying agent on the Bonds as provided in the Indenture, as and when the same become due (including the reasonable fees and expenses of counsel), including fees, charges and expenses relating to the interpretation, enforcement or amendment of this Agreement, (iii) the reasonable fees, charges and expenses of the Trustee for the necessary extraordinary services rendered by it and extraordinary expenses incurred by it under the Indenture, as and when the same become due (including the reasonable fees and expenses of its counsel), and (iv) any amounts required to be deposited in the Rebate Fund to comply with the provisions of Section 5.6 hereof. The Borrower shall also pay the cost of printing any Bonds required to be furnished by the City.

(c) The Borrower also agrees to pay, within 60 days after receipt of request for payment thereof, all expenses required to be paid by the Borrower under the terms of the Bond Purchase Agreement executed by it in connection with the sale of the Bonds, and all expenses of the City related to the financing of the Project which are not otherwise required to be paid by the Borrower under the terms of this Agreement; provided that the City shall have obtained the prior written approval of the Authorized Borrower Representative for any expenditures other than those provided for herein or in said Bond Purchase Agreement.

The Borrower also agrees to pay to the City on or before the Issue Date an origination fee for the Bonds in the amount of $125,000.

(d) The Borrower hereby authorizes and directs the Trustee to draw or demand payment of moneys under the Credit Facility (if any shall then be in effect) in accordance with the provisions of the Indenture and such Credit Facility at the times and in the amounts necessary to pay the purchase price of all Bonds tendered for purchase in accordance with Sections 2.01(d) and 2.01(e) of the Indenture, to the extent proceeds of the remarketing of such Bonds are not then available for such payment. Solely to the extent that the proceeds of any such drawing or payment under such Credit Facility, if any, together with the proceeds of the remarketing of such tendered Bonds, are insufficient to pay the purchase price of such Bonds, the Borrower hereby agrees to pay in immediately available funds, for deposit into the Bond Purchase Fund (as defined in the Tender Agreement) maintained by the Tender Agent, all amounts necessary to purchase such tendered Bonds in accordance with Sections 2.01(d) and 2.01(e) of the Indenture.

(e) In the event the Borrower should fail to make any of the payments required by subsections (a) through (d) of this Section, such payments shall continue as obligations of the Borrower until such amounts shall have been fully paid. The Borrower agrees to pay such amounts, together with interest thereon until paid, to the extent permitted by law, at the rate of one percent (1%) per annum over the rate borne by any Bonds in respect of which such payments are required to be made pursuant to said subsection (a), and one percent (1%) per annum over the average rate then borne by the Bonds as to all other payments. Interest on overdue payments required under subsection (a) or (d) above shall be paid to Bondholders as provided in the Indenture.

(f) Upon written request of the Trustee, the Borrower shall pay any Repayment Installment directly to the Paying Agent.

SECTION 4.3. UNCONDITIONAL OBLIGATION. The obligations of the Borrower to make the payments required by Section 4.2 hereof and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the City, and during the term of this Agreement, the Borrower shall pay absolutely net the payments to be made on account of the loan as prescribed in Section 4.2 and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of, premium, if any, and interest on the Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, the Borrower (i) will not suspend or discontinue any payments provided for in Section 4.2 hereof; (ii) will perform and observe all of its other covenants contained in this Agreement and any Credit

Agreement; and (iii) will not terminate this Agreement for any cause, including, without limitation, failure to complete the Project, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either of these, or any failure of the City or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement or the Indenture, except to the extent permitted by this Agreement.

SECTION 4.4. ASSIGNMENT OF CITY'S RIGHTS. As security for the payment of the Bonds, the City will assign to the Trustee the City's rights, but not its obligations, under this Agreement, including the right to receive payments hereunder (except (i) the rights of the City to receive notices under this Agreement, (ii) the right of the City to receive certain payments, if any, with respect to fees, expenses and indemnification and certain other purposes under Sections 4.2(c), 4.2(e), 6.3, 8.2 and 8.3 hereof, and (iii) the right of the City to give approvals or consents pursuant to this Agreement) and the City hereby directs the Borrower to make the payments required hereunder (except such payments for fees, expenses and indemnification) directly to the Trustee. The Borrower hereby assents to such assignment and agrees to make payments directly to the Trustee without defense or set-off by reason of any dispute between the Borrower and the City or the Trustee.

The City hereby acknowledges that the Borrower will be obligated to reimburse any Credit Provider for amounts provided under any Credit Facility to purchase Bonds which are tendered for purchase and not remarketed pursuant to the Remarketing Agreement, and acknowledges that any and all proceeds of any subsequent remarketing of any such Bonds so purchased will be paid to the Credit Provider in order to discharge such reimbursement obligation (or any loan by the Credit Provider to finance such reimbursement obligation) of the Borrower to the Credit Provider.

SECTION 4.5. AMOUNTS REMAINING IN FUNDS. It is agreed by the parties hereto that after payment in full of (i) the Bonds, or after provision for such payment shall have been made as provided in the Indenture, (ii) the fees and expenses of the City in accordance with this Agreement, (iii) the fees, charges and expenses of the Trustee, the Registrar and paying agents in accordance with the Indenture and this Agreement and (iv) all other amounts required to be paid under this Agreement and the Indenture, any amounts remaining in any fund held by the Trustee under the Indenture shall be applied as provided in Section 5.06 of the Indenture.

SECTION 4.6. CREDIT FACILITY. The Borrower may provide and subsequently terminate a Credit Facility with respect to the Bonds in accordance with the provisions of Section 5.07 of the Indenture; provided, however, that the Borrower shall not terminate any Credit Facility with respect to Bonds during a Term Rate Period or a Variable Term Rate Period. Not less than fifteen days prior to any termination of a Credit Facility, any renewal or extension of a Credit Facility or any delivery of any substitute Credit Facility, the Borrower shall mail written notice of such termination, renewal, extension or substitution, as the case may be, to the Rating Agencies. The Borrower covenants and agrees that it will not terminate, amend or consent to any amendment of any Credit Facility, Credit Agreement or other document relating to a Credit Facility unless the City and the Trustee shall have received an opinion of Bond Counsel to the effect that such termination, amendment or consent will not adversely affect the Tax-exempt status of interest on the Bonds.

ARTICLE V

SPECIAL COVENANTS AND AGREEMENTS

SECTION 5.1. RIGHT OF ACCESS TO THE PROJECT. The Borrower agrees that during the term of this Agreement the City, the Trustee and the duly authorized agents of either of them shall have the right at all reasonable times during normal business hours to enter upon the site of the Project described in Exhibit A hereto to examine and inspect such Project; provided, however, that this right is subject to federal and State of California laws and regulations applicable to such site; and provided, further, that such right of access to the site of the Project shall not be construed to require the excavation of any subterranean portions of the Project or any other extraordinary measures which might disturb the Project's normal operation. The rights of access hereby reserved to the City and the Trustee may be exercised only after such agent shall have executed release of liability (which release shall not limit any of the Borrower's obligations hereunder) and secrecy agreements if requested by the Borrower in the form then currently used by the Borrower, and nothing contained in this Section or in any other provision of this Agreement shall be construed to entitle the City or the Trustee to any information or inspection involving the confidential know-how of the Borrower.

SECTION 5.2. THE BORROWER'S MAINTENANCE OF ITS EXISTENCE; ASSIGNMENTS. (a) The Borrower agrees that during the term of this Agreement it will maintain its corporate existence in good standing and will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate or merge into it; provided, that the Borrower may, without violating the covenants contained in this Section, consolidate with or merge into another corporation, or permit one or more other corporations to

consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets and thereafter dissolve, provided that (1) either (A) the Borrower is the surviving corporation or (B) the surviving, resulting or transferee corporation, as the case may be, (i) assumes and agrees in writing to pay and perform all of the obligations of the Borrower hereunder, and (ii) qualifies to do business in the State of California; and (2) the Borrower shall deliver to the Trustee an opinion of Bond Counsel to the effect that such consolidation, merger or transfer and dissolution does not in and of itself adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(b) The rights and obligations of the Borrower under this Agreement may be assigned by the Borrower, with the written consent of the City, in whole or in part subject, however, to each of the following conditions:

(i) No assignment (other than pursuant to a merger, consolidation or combination described in Section 5.2(a)) shall relieve the Borrower from primary liability for any of its obligations hereunder, and in the event of any assignment not pursuant to Section 5.2(a), the Borrower shall continue to remain primarily liable for the payments specified in Section 4.2 hereof and for performance and observance of the other agreements on its part herein provided to be performed and observed by it.

(ii) Any assignment from the Borrower shall retain for the Borrower such rights and interests as will permit it to perform its obligations under this Agreement, and any assignee from the Borrower shall assume the obligations of the Borrower hereunder to the extent of the interest assigned.

(iii) The Borrower shall, within thirty days after delivery of such assignment, furnish or cause to be furnished to the City and the Trustee a true and complete copy of each such assignment together with an instrument of assumption.

(iv) The Borrower shall cause to be delivered to the City and the Trustee an opinion of Bond Counsel that such assignment will not, in and of itself, result in the interest on the Bonds being determined to be includable in the gross income for federal income tax purposes of the owners thereof.

SECTION 5.3. RECORDS AND FINANCIAL STATEMENTS OF BORROWER; NOTICES TO TRUSTEE. The Borrower agrees (a) to keep and maintain full and accurate accounts and records of its operations in accordance with generally accepted accounting principles, and (b) to permit the Trustee for itself or on behalf of the holders of the Bonds and its designated officers, employees, agents and representatives to have access to such accounts and records and to make examinations thereof at all reasonable times. The Borrower hereby further agrees to provide the Trustee with the following:

(a) On or before the fifth (5th) Business Day following each Interest Payment Date while any of the Bonds are Outstanding, a certificate of an Authorized Borrower Representative (which complies with Section 1.04 of the Indenture) that all payments required under this Agreement have been made;

(b) Within one hundred twenty (120) days after the end of each fiscal year of the Borrower, (i) a certificate of Authorized Borrower Representative (which complies with Section 1.04 of the Indenture) to the effect that all payments have been made under this Agreement and that, to the best of such officer's knowledge, there exists no Event of Default or event which, with the passage of time or the giving of notice, or both, would become an Event of Default, or, if any default or Event of Default exists, a description thereof and (ii) the audited annual report of the Borrower for such fiscal year; and

(c) Upon knowledge of an Event of Default under this Agreement or the Indenture, notice of such Event of Default, such notice to include a description of the nature of such event and what steps are being taken to remedy such Event of Default.

SECTION 5.4. MAINTENANCE AND REPAIR; TAXES, UTILITY AND OTHER CHARGES; INSURANCE. The Borrower agrees that as long as it owns the Project it will (i) maintain, or cause to be maintained, the Project in as reasonably safe condition as its operations shall permit and (ii) maintain, or cause to be maintained, the Project in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

The Borrower agrees to pay or cause to be paid during the term of this Agreement all taxes, governmental charges of any kind lawfully assessed or levied upon the Project or any part thereof, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Project, provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Borrower shall be obligated to pay only such installments as are required to be paid during the term of this Agreement. The Borrower may, at the Borrower's expense and in the Borrower's name, in good faith, contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during that period of such contest and any appeal therefrom unless by such nonpayment the Project or any part thereof will be subject to loss or forfeiture.

The Borrower agrees that it will keep, or cause to be kept, (i) the Project insured against such risks and in such amounts as are consistent with its insurance practices for similar types of facilities (which may include self-insurance), and (ii) insurance against all direct or contingent loss or liability for personal injury, death or property damage occasioned by the operation of the Project, which insurance may be a part of the policy or policies of insurance customarily maintained by the Borrower in connection with its general property and liability insurance upon all of the plants and properties operated by it (including such deductibles as may be provided in said policies).

SECTION 5.5. QUALIFICATION IN CALIFORNIA. The Borrower agrees that throughout the term of this Agreement it, or any successor or assignee as permitted by Section 5.2, will be qualified to do business in the State of California.

SECTION 5.6. TAX EXEMPT STATUS OF BONDS. (A) It is the intention of the parties hereto that interest on the Bonds shall be and remain excluded from gross income for federal income tax purposes. To that end the covenants and agreements of the City and the Borrower in this Section and in the Tax Certificate are for the benefit of the Trustee and each and every person who at any time will be a holder of the Bonds.

(B) The City covenants and agrees that it has not taken and will not take any action which results in interest to be paid on the Bonds being included in gross income of the holders of the Bonds for federal income tax purposes, and the Borrower covenants and agrees that it has not taken or permitted to be taken and will not take or permit to be taken any action which will cause the interest on the Bonds to become includable in gross income for federal income tax purposes; provided that neither the Borrower nor the City shall have violated these covenants if interest on any of the Bonds becomes taxable to a person solely because such person is a "substantial user" of the Project or the Clark County Project or a "related person" within the meaning of Section 147(a) of the Code; and provided further that none of the covenants and agreements herein contained shall require either the Borrower or the City to enter an appearance or intervene in any administrative, legislative or judicial proceeding in connection with any changes in applicable laws, rules or regulations or in connection with any decisions of any court or administrative agency or other governmental body affecting the taxation of interest on the Bonds. The Borrower acknowledges having read Section 6.06 of the Indenture and agrees to perform all duties imposed on it by such Section, by this Section and by the Tax Certificate. Insofar as Section 6.06 of the Indenture and the Tax Certificate impose duties and responsibilities on the City or the Borrower, they are specifically incorporated herein by reference.

(C) Notwithstanding any provision of this Section 5.6 or Section 6.06 of the Indenture, if the Borrower shall provide

to the City and the Trustee an opinion of Bond Counsel to the effect that any specified action required under this Section 5.6 and Section 6.06 of the Indenture is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Borrower, the Trustee and the City may conclusively rely on such opinion in complying with the requirements of this Section, and the covenants hereunder shall automatically be deemed to be modified to that extent.

SECTION 5.7. NOTICE OF RATE PERIODS. The Borrower shall designate and give timely written notice to the Trustee as required by the Indenture prior to any change in Rate Periods for the Bonds. In addition, if the Borrower shall elect to change Rate Periods in accordance with the Indenture and the Bonds under circumstances requiring the delivery of an opinion of Bond Counsel, the Borrower shall deliver such opinion to the Trustee concurrently with the giving of notice with respect thereto, and no such change shall be effective without an opinion of Bond Counsel to the effect that such change is authorized or permitted under the Indenture and the Law and will not adversely affect the Tax-Exempt status of the interest on the Bonds.

SECTION 5.8. REMARKETING OF THE BONDS.

(a) The Borrower agrees to perform all obligations and duties required of it by the Indenture with respect to the remarketing of the Bonds, and to appoint as set forth below a Remarketing Agent and a Tender Agent meeting the qualifications and otherwise meeting the requirements set forth in this Section 5.8.

(b) Tender Agent.

(i) Appointment and Duties: In order to carry out the duties and obligations of the Tender Agent contained in the Indenture, the Borrower shall appoint a Tender Agent or Tender Agents in order to carry out such duties and obligations. Each Tender Agent shall designate to the Trustee its principal office and signify its acceptance of the duties and obligations imposed upon it under the Indenture by entering into a Tender Agreement with the Borrower and such other parties as shall be appropriate, which may be combined with a Remarketing Agreement into a single document, delivered to the City, the Trustee, the Borrower and the Remarketing Agent, under which the Tender Agent shall agree, particularly (but without limitation): (A) to perform the duties and comply with the requirements imposed upon it by the Tender Agreement, the Indenture and this Agreement; and (B) to keep such books and records with respect to its activities as Tender Agent as shall be consistent with prudent industry practice and to make such books and records available for inspection by each of the City, the Trustee and the Borrower at all reasonable times.

(ii) Qualifications: Each Tender Agent shall be a banking corporation or banking association organized and doing

business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least Fifty Million Dollars ($50,000,000), subject to supervision or examination by federal or state authority and whose senior, unsecured debt obligations, or whose parent or holding company's senior, unsecured debt obligations, are continuously rated at least Baa3 or Prime3 by Moody's Investors Service (so long as such Rating Agency maintains a rating on the Bonds and on such Person, parent or holding company, as the case may be). If such banking corporation or banking association publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such banking corporation or banking association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(c) Remarketing Agent. In order to carry out the duties and obligations contained in the Indenture, the Borrower, by an instrument in writing (which may be the Remarketing Agreement) signed by an Authorized Borrower Representative, shall select the Remarketing Agent for the Bonds subject to the conditions set forth below. The Remarketing Agent shall designate to the Trustee its principal office and signify its acceptance of the duties and obligations imposed upon it under the Indenture by a written instrument of acceptance (which may be the execution of a Remarketing Agreement) delivered to the City, the Trustee and the Borrower under which the Remarketing Agent shall agree, particularly (but without limitation): (i) to perform the duties and comply with the requirements imposed upon it by the Remarketing Agreement, the Indenture and this Agreement; and (ii) to keep such books and records with respect to its activities as Remarketing Agent as shall be consistent with prudent industry practice and to make such books and records available for inspection by each of the City, the Trustee and the Borrower at all reasonable times. No Person shall be eligible to serve as the Remarketing Agent with respect to the Bonds unless either the senior, unsecured debt obligations of such Person, or the senior, unsecured debt obligations of such Person's parent or holding company, are continuously rated at least Baa3 or Prime3 by Moody's Investors Service (so long as such Rating Agency maintains a rating on the Bonds and on such Person, parent or holding company, as the case may be). The principal office of the Remarketing Agent shall be located in the same city as the principal office of the Tender Agent.

(d) Remarketing Agreement. In order to provide for the remarketing of the Bonds, the Borrower shall enter into a Remarketing Agreement with the Remarketing Agent and such other parties as shall be appropriate, which may be combined with a Tender Agreement into a single document. Each Remarketing Agreement shall include the following: (i) a requirement that such Remarketing Agreement shall not be terminated by the

Borrower without cause for a period of at least six months after the effective date thereof; and (ii) a statement to the effect that the Remarketing Agent is not acting in an agency capacity with respect to the Borrower in establishing interest rates and Rate Periods as described in Section 2.01 of the Indenture, but is acting as agent of the City pursuant to the Law with respect to such functions.

(e) Notices to Remarketing Agents. The Borrower agrees to provide to any co-remarketing agents specified in the applicable Remarketing Agreement with notice of any proposed adjustment of the Rate Period for the Bonds to a Term Rate Period pursuant to Section 2.01(c)(iv)(B) of the Indenture and any other notice specified in such Remarketing Agreement, all at the times and in the manner specified therein.

SECTION 5.9. NOTICES TO TRUSTEE AND CITY. The Borrower hereby agrees to provide each of the Trustee and the City with notice of any event of which it has knowledge which, with the passage of time or the giving of notice, would be an Event of Default, such notice to include a description of the nature of such event and what steps are being taken to remedy such Event of Default. The Borrower further agrees and covenants to notify the City promptly upon receiving actual notice of any non-performance by the Trustee of its duties and obligations under the Indenture or this Agreement.

SECTION 5.10. PROJECT COMPLIANCE. The Borrower hereby covenants and agrees to comply with (or cause to be complied with) all legal requirements relating to the operation, maintenance and repair of the Project. In furtherance of such covenant, the Borrower shall (a) obtain any rezonings or variances, building, development or other permits and approvals, and licenses or other entitlements for use which it deems necessary for the operation, maintenance and repair of the Project, without regard to any exemption for public projects, and (b) secure the issuance of any necessary certificates of need, convenience and necessity or other necessary certificates or franchises. Upon written request by the City or the Trustee, the Borrower shall provide evidence of such compliance to the City and the Trustee.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

SECTION 6.1. EVENTS OF DEFAULT. Any one of the following which occurs and continues shall constitute an Event of Default pursuant to this Agreement:

(a) failure by the Borrower to pay any amounts required to be paid under Section 4.2(a) or 4.2(d) hereof when due; or

(b) failure of the Borrower to observe and perform any covenant, condition or agreement on its part required to be observed or performed by this Agreement, other than making the payments referred to in (a) above, which continues for a period of 60 days after written notice, which notice shall specify such failure and request that it be remedied, given to the Borrower by the City or the Trustee, unless the City and the Trustee shall agree in writing to an extension of such time; provided, however, that if the failure stated in the notice cannot be corrected within such period, the City and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within such period and diligently pursued until the default is corrected; or

(c) an Act of Bankruptcy of the Borrower; or

(d) any default under any Credit Agreement if the Credit Provider notifies the Trustee in writing that such default shall be treated as an Event of Default hereunder.

The provisions of subsection (b) of this Section are subject to the limitation that the Borrower shall not be deemed in default if and so long as the Borrower is unable to carry out its agreements hereunder by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of California or any of their departments, agencies, or officials, or any civil or military authority; insurrections, riots, epidemics, landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Borrower; it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Borrower, and the Borrower shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Borrower, unfavorable to the Borrower. This limitation shall not apply to any default under subsections (a), (c) or (d) of this Section.

SECTION 6.2. REMEDIES ON DEFAULT. Whenever any Event of Default shall have occurred and shall continue, the following remedies may be pursued:

(a) The Trustee may, and upon the written request of any Credit Provider (which request may be contained in the notice referred to in paragraph (d) of Section 6.1 hereof) or the holders of not less than 25% in aggregate principal amount of Bonds then outstanding, shall, by notice in writing delivered to the Borrower with copies of such notice being sent to the City and each Credit Provider,

declare the unpaid balance of the loan payable under Section 4.2(a) of this Agreement and the interest accrued thereon to be immediately due and payable and such principal and interest shall thereupon become and be immediately due and payable. Upon any such acceleration, the Bonds shall be subject to mandatory redemption as provided in Section 4.01(b)(2) of the Indenture. After any such declaration of acceleration, the Trustee shall immediately take such actions as necessary to realize moneys under any Credit Facility.

(b) The Trustee may have access to and may inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Borrower.

(c) The City or the Trustee may take whatever action at law or in equity as may be necessary or desirable to collect the payments and other amounts then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Borrower under this Agreement.

The provisions of clause (a) of the preceding paragraph, however, are subject to the condition that if, at any time after the loan shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, there shall have been deposited with the Trustee a sum sufficient (together with any amounts held in the Bond Fund) to pay all the principal of the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal as provided herein, and the reasonable expenses of the Trustee, and the amount available to be drawn under the Credit Facility shall hve been fully reinstated, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the holders of at least a majority in aggregate principal amount of the Bonds then outstanding, by written notice to the City and to the Trustee, may, on behalf of the holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon; and provided further that there shall not be rescinded or annulled any such declaration which follows an event described in Section 6.1(e) without the written consent of the Credit Provider.

In case the Trustee or the City shall have proceeded to enforce its rights under this Agreement and such proceedings

shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the City, then, and in every such case, the Borrower, the Trustee and the City shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Borrower, the Trustee and the City shall continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the City, the Trustee or the Borrower shall not be disturbed by reason of this provision).

The Borrower covenants that, in case an Event of Default shall occur with respect to the payment of any Repayment Installment payable under Section 4.2(a) hereof, then, the Borrower will pay to the Trustee the whole amount that then shall have become due and payable under said Section, with interest, to the extent permitted by law, on the amount then overdue at the rate of one percent (1%) per annum over the rate from time to time in effect on the Bonds until such amount has been paid.

In case the Borrower shall fail forthwith to pay such amounts upon demand of the Trustee, the Trustee shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Borrower and collect in the manner provided by law the moneys adjudged or decreed to be payable.

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Borrower under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Borrower or in the case of any other similar judicial proceedings relative to the Borrower, or the creditors or property of the Borrower, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to this Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Borrower, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Indenture after the deduction of its charges and expenses. Any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized to make such payments to the Trustee, and to pay to the Trustee any amount due it for compensation and expenses, including expenses and fees of counsel incurred by it up to the date of such distribution.

SECTION 6.3. AGREEMENT TO PAY ATTORNEYS' FEES AND EXPENSES. In the event the Borrower should default under any of the provisions of this Agreement and the City or the Trustee

should employ attorneys or incur other expenses for the collection of the payments due under this Agreement or the Indenture or the enforcement of performance or observance of any obligation or agreement on the part of the Borrower herein contained, the Borrower agrees to pay to the City and the Trustee the reasonable fees of their respective attorneys and such other expenses so incurred by the City and the Trustee.

SECTION 6.4. NO REMEDY EXCLUSIVE. No remedy herein conferred upon or reserved to the City or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the City or the Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Such rights and remedies as are given the City hereunder shall also extend to the Trustee, and the Trustee and the holders of the Bonds shall be deemed third party beneficiaries of all covenants and agreements herein contained, including without limitation covenants and agreements with respect to (a) the compensation and indemnification of the Trustee and (b) the provision of any required notices, information and directions to the Trustee.

SECTION 6.5. NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER. In the event any agreement or covenant contained in this Agreement should be breached by the Borrower and thereafter waived by the City or the Trustee, such waiver shall be a one-time waiver limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE VII

PREPAYMENT

SECTION 7.1. REDEMPTION OF BONDS WITH PREPAYMENT MONEYS. By virtue of the assignment of the rights of the City under this Agreement to the Trustee as is provided in Section 4.4 hereof, the Borrower agrees to and shall pay directly to the Trustee any amount permitted or required to be paid by it under this Article VII to the extent such payment is not timely provided by any Credit Facility then in effect. The Trustee shall use the moneys so paid to it by the Borrower to effect redemption of the Bonds in accordance with Article IV of the Indenture on the date specified for such redemption pursuant to Section 7.5 hereof.

SECTION 7.2. OPTIONS TO PREPAY INSTALLMENTS. The Borrower shall have the option to prepay the amounts payable under Section 4.2 hereof by paying to the Trustee, for deposit in the Bond Fund, the amount set forth in Section 7.4 hereof, under the circumstances set forth in Section 4.01(a) of the Indenture.

SECTION 7.3. MANDATORY PREPAYMENT. (a) The Borrower shall have and hereby accepts the obligation to prepay Repayment Installments to the extent mandatory redemption of the Bonds is required pursuant to Section 4.01(b) of the Indenture. The Borrower shall satisfy its obligation hereunder by prepaying such Repayment Installments within one hundred eighty (180) days after the occurrence of any event set forth in paragraphs (1) or (2) of said Section 4.01(b) giving rise to such required prepayment, and immediately upon the occurrence of any event set forth in paragraph (3) thereof giving rise to such required prepayment. The amount payable by the Borrower in the event of a prepayment required by this Section shall be determined as set forth in Section 7.4 and shall be deposited in the Bond Fund.

SECTION 7.4. AMOUNT OF PREPAYMENT. In the case of a prepayment of the entire amount due hereunder pursuant to Section 7.2 or 7.3 hereof, the amount to be paid shall be a sum sufficient, together with other funds and the yield on any securities deposited with the Trustee and available for such purpose, to pay (1) the principal of all Bonds outstanding on the redemption date specified in the notice of redemption, plus interest accrued and to accrue to the payment or redemption date of the Bonds, plus premium, if any, pursuant to the Indenture, (2) all reasonable and necessary fees and expenses of the City, the Trustee and any paying agent accrued and to accrue through final payment of the Bonds, and (3) all other liabilities of the Borrower accrued and to accrue under this Agreement.

In the case of partial prepayment of the Repayment Installments, the amount payable shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to pay the principal amount of and premium, if any, and accrued interest on the Bonds to be redeemed, as provided in the Indenture, and to pay expenses of redemption of such Bonds.

SECTION 7.5. NOTICE OF PREPAYMENT. To exercise an option granted by this Article VII, the Borrower shall give, at least fifteen (15) days prior to the last day by which the Trustee is permitted to give notice of redemption pursuant to Section 4.03 of the Indenture, written notice to the City and the Trustee specifying the date upon which any prepayment will be made. If, in the case of a mandatory prepayment pursuant to Section 7.3 hereof, the Borrower fails to give such notice of a prepayment required by this Section 7.5, such notice may be given by the City, by the Trustee at the written direction of the City or by any holder or holders of ten percent (10%) or more in aggregate principal amount of the Bonds Outstanding. The City and the Trustee, at the request of the Borrower or any such holder or

holders, shall forthwith take all steps necessary under the applicable provisions of the Indenture (except that the City shall not be required to make payment of any money required for such redemption) to effect redemption of all or part of the then outstanding Bonds, as the case may be, on the earliest practicable date thereafter on which such redemption may be made under applicable provisions of the Indenture.

ARTICLE VIII

NON-LIABILITY OF CITY; EXPENSES; INDEMNIFICATION

SECTION 8.1. NON-LIABILITY OF CITY. The City shall not be obligated to pay the principal of, or premium, if any, or interest on the Bonds, or to discharge any other financial liability in connection herewith, except from Revenues. The Borrower hereby acknowledges that the City's sole source of moneys to repay the Bonds will be provided by the payments made by the Borrower pursuant to this Agreement (excluding payments pursuant to Section 4.2(b), 4.2(c), 5.6, 6.3, 8.2 and 8.3 of this Agreement), together with other Revenues, including any amounts received pursuant to any Credit Facility or investment income on certain funds and accounts held by the Trustee under the Indenture, and hereby agrees that if the payments to be made hereunder shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Borrower shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Borrower, the City or any third party; provided that the failure of the Trustee to deliver such notice shall not affect the obligation of the Borrower to make such payments when due.

SECTION 8.2. EXPENSES. The Borrower covenants and agrees to pay within fifteen (15) days after billing therefor and to indemnify the City and the Trustee against all costs and charges, including fees and disbursements of attorneys, accountants, consultants, including financial consultants, engineers and other experts, incurred in good faith in connection with this Agreement, the Bonds or the Indenture. The City shall notify the Borrower in writing prior to engaging any professional or expert for which the City plans to bill the Borrower, other than under the circumstances described in Section 6.3 hereof.

SECTION 8.3. INDEMNIFICATION. The Borrower releases the City and the Trustee from, and covenants and agrees that neither the City nor the Trustee shall be liable for, and covenants and agrees, to the extent permitted by law, to indemnify and hold harmless the City and the Trustee and their officers, employees and agents from and against, any and all

losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from or in any way connected with (1) the Project, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the Project or any part thereof; (2) the issuance of any Bonds or any certifications or representations made in connection therewith and the carrying out of any of the transactions contemplated by the Bonds, the Indenture and this Agreement; (3) the Trustee's acceptance or administration of the trusts under the Indenture, or the exercise or performance of any of its powers or duties under the Indenture; or (4) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, in any official statement or other offering circular utilized by the City or any underwriter or placement agent in connection with the sale of any Bonds; provided that such indemnity shall not be required for damages that result from negligence or willful misconduct on the part of the party seeking such indemnity. The Borrower further covenants and agrees, to the extent permitted by law, to pay or to reimburse the City and the Trustee and their officers, employees and agents for any and all costs, attorneys fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions, except to the extent that the same arise out of the negligence or willful misconduct of the party claiming such payment or reimbursement. The provisions of this Section shall survive the retirement of the Bonds or resignation or removal of the Trustee.

ARTICLE IX

MISCELLANEOUS

SECTION 9.1. NOTICES. All notices, certificates or other communications shall be deemed sufficiently given on the second day following the day on which the same have been mailed by first class mail, postage prepaid, or by telecopy or similar facsimile transmission capable of making a written record, addressed to the City, the Borrower, the Trustee, the Registrar, the Paying Agent, the Tender Agent, the Remarketing Agent, the Credit Provider or the Rating Agencies, as the case may be, as provided in Section 11.05 of the Indenture. A duplicate copy of each notice, certificate or other communication given hereunder by either the City or the Borrower to the other shall also be given to the Trustee and any Credit Provider. The City, the Borrower, the Trustee and the Credit Provider may, by notice given hereunder, designate any different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 9.2. SEVERABILITY. If any provision of this Agreement shall be held or deemed to be, or shall in fact be, illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative, or unenforceable to any extent whatever.

SECTION 9.3. EXECUTION OF COUNTERPARTS. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument; provided, however, that for purposes of perfecting a security interest in this Agreement under Article 9 of the California Uniform Commercial Code, only the counterpart delivered, pledged, and assigned to the Trustee shall be deemed the original.

SECTION 9.4. AMENDMENTS, CHANGES AND MODIFICATIONS. Subsequent to the initial issuance of Bonds and prior to their payment in full, or provision for such payment having been made as provided in the Indenture, this Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee.

SECTION 9.5. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the applicable laws of the State of California, except that the duties and obligations of the Trustee shall be governed by the laws of the State of New York.

SECTION 9.6. AUTHORIZED BORROWER REPRESENTATIVE. Whenever under the provisions of this Agreement the approval of the Borrower is required or the City or the Trustee is required to take some action at the request of the Borrower, such approval or such request shall be given on behalf of the Borrower by the Authorized Borrower Representative, and the City and the Trustee shall be authorized to act on any such approval or request without liability and neither party hereto shall have any complaint against the other or against the Trustee as a result of any such action taken.

SECTION 9.7. TERM OF THE AGREEMENT. This Agreement shall be in full force and effect from the date hereof and shall continue in effect as long as any of the Bonds is outstanding or the Trustee holds any moneys under the Indenture, whichever is later. All representations and certifications by the Borrower as to all matters affecting the tax-exempt status of the Bonds shall survive the termination of this Agreement.

SECTION 9.8. BINDING EFFECT. This Agreement shall inure to the benefit of and shall be binding upon the City, the Borrower and their respective successors and assigns; subject, however, to the limitations contained in Section 5.2 hereof.

SECTION 9.9. THE CREDIT PROVIDER. All provisions hereof regarding consents, approvals, directions, appointments or

requests by the Credit Provider shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by the Credit Provider and shall be read as if the Credit Provider were not mentioned therein during any time in which the Credit Provider is in default under the Credit Facility, or after the Credit Facility shall at any time for any reason cease to be valid and binding on the Credit Provider, or shall be declared to be null and void, or while the Credit Provider is denying further liability or obligation under the Credit Facility or after the Credit Provider has rescinded, repudiated or terminated the Credit Facility.

All provisions herein relating to the Credit Provider shall be of no force and effect if there is no Credit Facility or Credit Agreement in effect and there are no Bonds held by the Credit Provider and all amounts owing to the Credit Provider under the Credit Agreement have been paid.

IN WITNESS WHEREOF, the City of Big Bear Lake has caused this Agreement to be executed in its name and its seal to be hereunto affixed and attested by its duly authorized officers, and Southwest Gas Corporation has caused this Agreement to be executed in its name and its seal to be hereunto affixed by its duly authorized officers, all as of the date first above written.

CITY OF BIG BEAR LAKE

By ___________________________
Mayor

[SEAL]

Attest:

____
City Clerk

SOUTHWEST GAS CORPORATION

By ___________________________
Treasurer

[SEAL]

Attest:

____
Assistant Secretary

EXHIBIT A

DESCRIPTION OF THE PROJECT

The Project shall consist of those certain additions and improvements to, and replacements of, the Borrower's natural gas distribution and transmission system through which the Borrower furnishes natural gas to its customers in San Bernardino County, California, and certain other plant, property and equipment used or to be used for the same purposes. The Project includes, without limitation, meters, customer service connections, mains, pressure regulators and other additions and improvements to, and replacements of, the facilities which comprise the Borrower's natural gas distribution and transmission system, including associated land and land rights.

EXHIBIT B

FORM OF CONSTRUCTION FUND REQUISITION

To: ______________________________, as trustee under that certain Indenture of Trust, dated as of December 1, 1993 (the "Indenture"), between the City of Big Bear Lake (the "City") and said trustee.

Pursuant to Section 3.03 of the Indenture and Section 3.3 of the Project Agreement, dated as of December 1, 1993 (the "Agreement"), between the City and Southwest Gas Corporation (the "Borrower"), the Borrower hereby makes the following requisition from the Construction Fund held under the Indenture:

Requisition No. R-__

Pay to the Order of: Name: ____
Address: ____
____
____

Purpose of Payment: ____
____
____

Amount: $ __________.__

The undersigned hereby certifies and represents as follows:

(1) the foregoing payment obligation has been properly incurred and is a proper charge against the Construction Fund;

(2) none of the items for which payment is requested has been previously reimbursed from the Construction Fund;

(3) each item for which payment is requested is or was necessary in connection with the acquisition, construction, installation or financing of the Project; and

(4) 100% of the amount requisitioned, together with all other amounts requisitioned to date, in the aggregate represents a Qualifying Cost as defined in the Tax Certificate (excluding costs of issuance of the Bonds).

SOUTHWEST GAS CORPORATION

By ______________________
Name:
Title:

EXHIBIT 10.08

SOUTHWEST GAS CORPORATION

BOARD OF DIRECTORS

RETIREMENT PLAN

Effective January 1, 1988
Amended Effective May 9, 1990
Amended and Restated Effective October 1, 1993

SOUTHWEST GAS BOARD OF DIRECTORS RETIREMENT PLAN

PURPOSE

The principal objective of this Board of Directors Retirement Plan is to ensure that a competitive level of retirement income is paid in order to attract and retain Directors of the Southwest Gas Corporation. The Plan is designed to provide a benefit that will meet this objective. Eligibility for participation in the Plan shall be limited to outside, nonemployee Directors retiring after January 1, 1988. The original Plan was effective on January 1, 1988 and amended May 9, 1990. This plan, as amended and restated shall apply to outside, nonemployee Directors retiring on or after October 1, 1993.

I. DEFINITIONS

1.1 "Board" means the Board of Directors of the Company.

1.2 "Committee" means the Nominating and Compensation Committee of the Board to which the Board has given authority to administer this Plan.

1.3 "Company" means Southwest Gas Corporation.

1.4 "Director" means an outside, nonemployee member of the Board.

1.5 "Effective Date" previously was January 1, 1988. This amendment and restatement of the Plan is effective October 1, 1993.

1.6 "Participant" means an outside, nonemployee Director. Inside Directors and/or Company retirees are excluded from participation in the Plan.

1.7 "Plan" is the Southwest Gas Board of Directors Retirement Plan as described in this document.

1.8 "Retiree" means a former Director eligible for or receiving benefits from the Plan.

1.9 "Retirement" means the termination of a Director's service on the Board on one of the retirement dates specified in Section 2.1.

1.10 "Service" means the years a Director has served as a member of the Board, including service before and after January 1, 1988.

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

II. ELIGIBILITY FOR BENEFITS

2.1 Each Participant is eligible to retire and receive a benefit under this Plan beginning on one of the following dates, provided he qualifies:

(a) "Normal Retirement Date," which is the first day of the month following the month in which the Participant reaches age 65, provided he has at least 10 years of service and is a member of the Board at the time of retirement.

(b) "Mandatory Retirement Date," which is the first day of the month following the month in which the Participant reaches age 72, provided he has at least 10 years of service.

(c) "Postponed Retirement Date," which is the first day of the month following the Participant's Normal Retirement Date, but no later than the Mandatory Retirement Date, in which the Participant terminates service on the Board, provided he has at least 10 years of service and is a member of the Board at the time of retirement.

(d) "Disability Retirement Date," which is the first day of the month following the month in which the Participant's total and permanent disability began, as determined by the Committee, but no later than the Participant's Normal Retirement Date, provided he has at least 10 years of service and is a member of the Board at the time of disability.

2.2 A Participant is eligible to take "Early Retirement" from the Board prior to age 65 provided he has at least 10 years of service and is a member of the Board at the time of retirement. The Participant taking an "Early Retirement" will be eligible to receive Normal Retirement Benefits when he reaches age 65.

III. AMOUNT AND FORM OF RETIREMENT BENEFIT

3.1 NORMAL RETIREMENT BENEFIT. The annual retirement benefit payable under the Plan will be the amount of the Director's annual retainer fee on the date of retirement and will be paid for life.

3.2 EARLY RETIREMENT BENEFIT. The annual retirement benefit payable for Early Retirement under the Plan will be the amount of the Director's annual retainer fee on date of retirement and will be paid for life, commencing at age 65.

3.3 POSTPONED RETIREMENT BENEFIT. The annual retirement benefit payable at a Postponed Retirement Date under the Plan will be the amount of the Director's annual retainer fee on the date of retirement and will be paid for life.

3.4 DISABILITY RETIREMENT BENEFIT. The annual retirement benefit under the Plan for a totally and permanently disabled Participant, payable at a Disability Retirement Date, will be the amount of the Director's annual retainer fee on the date of disability retirement.

3.5 DISCRETIONARY BENEFITS. The Board may, at its sole discretion, grant to an eligible Participant an increased benefit of $1,000 per year for life for each 10-year period of service beyond the minimum qualifying service period of 10 years.

IV. PAYMENT OF RETIREMENT BENEFITS

4.1 One-quarter of the benefit determined in accordance with Section III will be payable on the first day of each calendar quarter. The initial benefit payment will be paid at the time of retirement or within 30 days thereof, and will be prorated for a partial quarter if the retirement date is not on the first day of a quarter.

4.2 Benefit payments will cease on the first day of the calendar quarter following the Retiree's death.

V. DEATH BENEFITS PAYABLE

5.1 No benefits are payable under this Plan in the event of death.

VI. MISCELLANEOUS

6.1 The Board may, at its sole discretion, terminate, suspend, or amend this Plan or reduce the eligibility requirements for an individual Participant at any time or from time to time, in whole or in part. However, no amendment or suspension of the Plan will affect a Retiree's right to continue to receive a benefit in accordance with this Plan as in effect on the date such Retiree began to receive a benefit under this Plan.

6.2 No Director will participate in an action of the Committee or Board on a matter that solely applies to that Director. Such matters will be determined by a majority of the rest of the Committee or the Board.

6.3 Nothing contained herein will confer on any Participant the right to be retained in the service of the Company, nor will it interfere with the Company's right to discharge or otherwise deal with Participants without regard to the Plan's existence.

6.4 The Plan is unfunded, and the Company will make Plan benefit payments solely on a current disbursement basis.

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

6.6 The Committee may adopt rules and regulations to assist it in administering the Plan.

6.7 Each Participant will receive a copy of this Plan, and the Committee will make available for any Participant's inspection a copy of the rules and regulations the Committee uses in administering the Plan.

6.8 This Plan is established under, and will be construed according to, the laws of the State of Nevada.

SOUTHWEST GAS CORPORATION

By ______________________
Kenny C. Guinn
Chairman of the Board

By ______________________
Michael O. Maffie
President and CEO

Date ____________________

EXHIBIT 10.13

AGREEMENT TO PURCHASE ASSETS

AND ASSUME LIABILITIES

BETWEEN

WORLD SAVINGS AND LOAN ASSOCIATION,

PRIMERIT BANK, FSB

AND

SOUTHWEST GAS CORPORATION

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AGREEMENT TO PURCHASE ASSETS AND ASSUME LIABILITIES

This Agreement to Purchase Assets and Assume Liabilities (" Agreement") is made and entered into this __ day of May, 1993, by and between World Savings and Loan Association, a Federal Savings and Loan Association ("Buyer"), and PriMerit Bank, FSB, a Federal Savings Bank ("Seller").

RECITALS

A. Buyer desires to acquire certain assets and assume certain liabilities of Seller and Seller desires to transfer to Buyer such assets and liabilities, as described in detail below.

B. Buyer and Seller wish to consummate the transactions contemplated by this Agreement in a timely and effective manner.

In consideration of the foregoing and the representations, covenants and agreements set forth in this Agreement, the parties agree as follows:

ARTICLE I

DEFINITIONS

1.1 Definitions. As used in this Agreement, the following terms have the definitions indicated:

"Account Loans" shall have the meaning assigned to it in Section 3.3 of the Agreement.

"Accrued Interest" means interest on deposits or loans, as the case may be, which is accrued but unpaid through a particular date.

"Affiliate" of a party means any person, partnership, corporation, association or other legal entity directly or indirectly controlling, controlled by or under common control with that party.

"Assets" means the Fixed Assets, the Account Loans, the Cash on Hand, the Records and the Core Deposit Intangible.

"Assumed Contracts" shall have the meaning assigned to it in Section 3.4 of the Agreement.

"Branch Offices" means those Seller branches listed on Schedule 1.

"Brokered Deposits" shall have the meaning set forth in 12 C.F.R. Section 337.6.

"Cash on Hand" means all petty cash, vault cash, teller cash and ATM cash located at a Branch Office. At the Closing, Seller shall deliver to Buyer a schedule ("Schedule 1.1 ") indicating the amount and location of the Cash on Hand as of the close of business on the day preceding the Closing Date.

"Closing" and "Closing Date" shall have the meanings assigned to them in Section 4.1 of the Agreement.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Company Employee Plan" shall refer to any Employee Plan which is now or, within five (5) years prior to the Closing Date, has been maintained, contributed to, or required to be contributed to, for the benefit of any Employee, and pursuant to which the Seller or any ERISA Affiliate has or may have any liability, contingent or otherwise.

"Core Deposits" means the aggregate amount of Deposits, together with all Accrued Interest thereon, but excluding: (i) Escheatable Deposits, (ii) Public Fund Accounts, (iii) Brokered Deposits, (iv) the portion of any Deposits in excess of $100,000, (v) Foreign Deposits, (vi) the portions of Deposits that secure Account Loans, (vii) commercial or business accounts, (viii) Deposits involved in pending or threatened litigation, and (ix) Deposits owned by any Affiliate of Seller or owned by any current employee of Seller not hired by Buyer effective upon the Closing. Although the Core Deposits are a liability of Seller that will be assumed together with other Deposits pursuant to Section 2.2(a), as a source of funds the Core Deposits represent a valuable asset, separate and distinct from goodwill, which Seller wishes to sell and Buyer wishes to purchase.

"Core Deposit Intangible" shall have the meaning assigned to it in Section 2.7 of the Agreement.

"Deposit Premium" means .20% of the aggregate amount of the Core Deposits as of the close of business on the Closing Date. The Deposit Premium represents the reasonable value of the Core Deposit Intangible associated with the Core Deposits.

"Deposits" shall have the meaning assigned to it in Section 3.2 of the Agreement.

"Employee" shall mean any current employee, officer, consultant, independent contractor, agent or director of the Seller or any of its subsidiaries, who performs services

at any of the Branch Offices during the period commencing on the date of this Agreement and ending on the Closing Date.

"Employee Agreement" shall refer to each management, employment, severance, consulting, non-compete, confidentiality, or similar agreement or contract between the Seller or any of its subsidiaries and any Employee.

"Employee Plan" shall refer to any plan, program, policy, payroll practice, contract, or other arrangement providing for compensation, severance, termination pay, performance awards, stock or stock-related awards, fringe benefits or other employee benefits of any kind, whether formal or informal, funded or unfunded and whether or not legally binding, including, without limitation, each "employee benefit plan," within the meaning of Section 3(3) of ERISA.

"Encumbrances" means all mortgages, claims, charges, liens, encumbrances, easements, restrictions, options, pledges, calls, commitments, security interests, conditional sales agreements, title retention agreements, leases and other restrictions of any kind whatsoever.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" shall mean any business or entity which is a member of a "controlled group of corporations," under "common control" or an "affiliated service group" with the Seller within the meaning of Sections 414(b), (c) or (m) of the Code, or required to be aggregated with the Seller under Section 414(o) of the Code, or is under "common control" with the Seller within the meaning of Section 4001(a)(14) of ERISA, or any regulations promulgated or proposed under any of the foregoing Sections.

"Escheatable Deposits" means savings accounts or checking deposits at the Branch Offices which have had no activity or customer contact for at least three years prior to the Closing Date.

"FDIC" means the Federal Deposit Insurance Corporation and any successor thereto.

"Federal Funds Rate" means for any day, the avenge of the dally high and low interest rates for federal funds for the previous business day as reported in such day's Wall Street Journal.

"Fixed Assets" shall have the meaning assigned to it in Section 3.1 of the Agreement.

"Foreign Deposits" means all Deposits at the Branch Offices in the names of persons whose primary or seasonal addresses as they appear on the records of the Seller are not in the State of Arizona.

"IRS" shall mean the Internal Revenue Service.

"Knowledge" means, with respect to Seller, the actual knowledge or knowledge which reasonably should have been obtained, after due diligence, of one or more of the following employees of Seller: any branch manager of the Branch Offices, any vice president, senior vice president, chief financial officer, chief administrative officer, executive vice president, and chief executive officer. "Knowledge" means, with respect to Buyer, the actual knowledge or knowledge which reasonably should have been obtained after due diligence, of one or more of the following employees of Buyer: any vice. president, senior vice president, group senior vice president, executive vice president or chief executive officer.

"Losses" shall mean any and all losses, damages, costs and expenses, including reasonable attorneys' fees, and any excise and penalty taxes.

"Multiemployer Plan" shall mean any Pension Plan which is a "multiemployer plan," as defined in Sections 3(37) and 4001(a)(3) of ERISA.

"Net Book Value" means, with respect to any asset, the total book value of the asset less applicable reserves, encumbrances and other deductible items, as reflected in the financial statements of Seller computed in accordance with generally accepted accounting principles consistently applied, plus any accrued interest thereon, excluding purchase accounting adjustments recorded as a result of Seller's acquisition of Union Savings and Loan Association.

"OTS" means the Office of Thrift Supervision and any successor thereto.

"Pension Plan" shall refer to each Company Employee Plan which is an "employee pension benefit plan," within the meaning of Section 3(2) of ERISA, and each "employee pension benefit plan" with respect to which the Seller or any ERISA Affiliate may have any liability.

"Public Fund Accounts" means a savings or checking account containing the funds of a state, county, municipality or other government unit or subdivision.

"Records" means (i) all records and original documents pertaining to the Assets (including warranties on Fixed Assets) and (ii) all records and original documents relating to the Deposits.

"WARN Act" means the Worker Adjustment and Retraining Notification Act, as amended.

ARTICLE II

TERMS OF PURCHASE

2.1 Purchase and Sale of Assets. At the Closing and subject to the terms and conditions set forth in this Agreement, Seller shall convey, assign and transfer to Buyer and Buyer shall purchase from Seller all of Seller's right, title and interest in and to the following assets:

(a) The Fixed Assets;

(b) The Account Loans;

(c) The Cash on Hand;

(d) The Records; and

(e) The Core Deposit Intangible.

2.2 Assumption of Liabilities.

(a) Deposits. As of the close of business on the Closing Date, subject to the terms and conditions set forth in this Agreement, Buyer shall assume liability for the payment and performance of Seller's obligations on the Deposits in accordance with the terms of such Deposits in effect on the Closing Date.

(b) Safe Deposit Box Business. As of the close of business on the Closing Date, Buyer will assume the obligations of Seller relating to the safe deposit box business conducted at the Branch Offices, as may be modified to conform to Buyer's conduct of business.

(c) Assumed Contracts. As of the close of business of the Closing Date, Buyer shall assume the obligations of the Seller with respects to the Assumed Contracts.

2.3 No Other Debt. Obligation or Liabilities Assumed. It is understood and agreed that, except as expressly set forth in this Agreement, Buyer shall not assume or be liable for any of the debts, obligations or liabilities of Seller of any kind or nature whatsoever including, but not limited to, any tax; any debt; any insurance premium; any liability for unfair labor practices (such as wrongful termination or employment discrimination) or under the WARN Act; any liability or obligation with respect to the Deposits except the obligation to pay the principal amount of each Deposit plus Accrued Interest; any liability arising out of or with respect to any of the Assets prior to the close of business on the Closing Date; any liability or obligation of Seller arising out of any

threatened or pending litigation; or any liability with respect to personal injury or property damage claims.

2.4 Purchase Price. The purchase price of the Assets will be an amount equal to the sum of the following:

(a) A sum equal to the Net Book Value of the Fixed Assets as of the close of business on the Closing Date;

(b) A sum equal to the Net Book Value of the Account Loans as of the close of business on the Closing Date;

(c) The amount of all Cash on Hand as of the close of business on the Closing Date; and

(d) The Deposit Premium.

2.5 Consideration for Assumption of Deposits. As consideration for the assumption of the Deposits, Seller shall pay to Buyer at the Closing one hundred percent (100%) of the aggregate amount of the Deposits as of the close of business on the Closing Date, including Accrued Interest thereon.

2.6 Prorations. All ordinary operating expenses relating to the Branch Offices, deferred or prepaid, including, without limitation, wages, salaries, rents, utility payments, liability and casualty insurance premiums, property taxes and assessments, FDIC insurance premiums and payments under Assumed Contracts, and the aggregate amount of collected but unearned fees, rentals and premiums paid in advance in connection with operations at the Branch Offices, including, without limitation, all safe deposit box fees and rentals, shall be prorated between the parties on the basis of a thirty (30) day month and a 360 day year as of the close of business on the Closing Date. All security deposits under leases and utility contracts (to the extent transferred to Buyer) shall be credited to Seller. At the Closing, Seller shall deliver to Buyer a schedule ("Schedule 2.6") indicating the type and amount of expenses, fees and security deposits to be prorated or credited under this Section 2.6 as of the close of business on the Closing Date.

2.7 Allocation of Purchase Price. Buyer and Seller agree that the allocation of the purchase price will be made based on the relative fair market value of the assets acquired as required by Section 1060 of the Code, and agree to utilize such allocation for federal income tax purposes. Such allocation, as set forth in Exhibit 1 hereto, will be consistently reflected by each party on their federal income tax returns and similar documents, including but not limited to IRS Form 8594. Neither party shall file any document or assert any position that conflicts or is inconsistent with such allocation, and each party agrees to inform the other promptly upon receipt of any communication from (or forwarding any communication to) the IRS relating to IRS Form 8594. Each party shall

cooperate fully with the other in preparing and filing IRS Form 8594.

In connection with the preparation of such allocation the parties acknowledge that one of the principal effects of the Agreement is the transfer of an additional asset (referred to herein as the "Core Deposit Intangible"), the value of which is the primary reason Buyer has agreed to pay the Deposit Premium described in Section 2.4(d) of the Agreement. Accordingly, the parties agree that, in the preparation of IRS Form 8594 or any other asset allocation statement, the Core Deposit Intangible shall be taken into account and shall be assigned the fair market value mutually agreed upon by Buyer and Seller and as forth in Exhibit 1 hereto.

ARTICLE III

DUE DILIGENCE

3.1 Fixed Assets Inventory and Inspection. Within ten (10) business days after the date of this Agreement, Seller shall deliver to Buyer a schedule of the furniture, equipment and other tangible personal property owned by Seller and located at each of the Branch Offices (referred to herein as Schedule 3.1), prepared as of the date of this Agreement. Schedule 3.1 shall identify each item of such property with reasonable particularity, giving the Net Book Value on Seller's books and describing any and all security interests therein or other lien thereon. Buyer shall be entitled to conduct a walk-through inspection of each Branch Office after receipt of Schedule 3.1 to inspect such property. In the event that any of such property as reported on the Schedule 3.1 is missing, malfunctioning or in a deteriorated condition, is subject to any liens as of the Closing, or in the event Buyer determines, in its sole discretion, that it cannot readily use such property, Buyer may elect to exclude the property from the transfer under this Agreement. Buyer intends to exclude ATMs, teller terminals, and other data processing equipment not compatible with the Buyer's data processing system. At the Closing, Seller agrees to provide Buyer an updated Schedule 3.1 listing all of the items of property remaining after any such exclusions (hereinafter the "Fixed Assets") and listing, among other things, the Net Book Value of each item calculated as of the close of business on the month-end preceding the Closing Date. A final Schedule 3.1 shall list the Net Book Value of each item as of the close of business on the Closing Date. The final Schedule 3.1 shall be delivered to Buyer at the Post-Closing pursuant to Section 4.3.

3.2 Deposits. Within ten (10) business days after the date of this Agreement, Seller shall deliver a schedule of all savings accounts, checking accounts and certificates of deposit domiciled at the Branch Offices, together with all Accrued Interest thereon (referred to herein as Schedule 3.2), prepared as of the date of this Agreement, listing by Branch Office and by category the amount of all deposits and the interest rates and maturity dates associated with such deposits. Included as a part of this preliminary deposit schedule shall be a true copy of the form of all contracts, agreements, and other documents governing or specifying the terms of the deposit relationship between Seller and the holders of such deposit accounts. It is the intention of Buyer to purchase substantially

all the deposit accounts; however, Buyer shall have the right to exclude any deposit accounts it is unwilling to assume for legal or operational reasons. Not less than thirty (30) days prior to the Closing Date, Buyer shall provide Seller with a list of deposits (referred to herein as Schedule 3.2A) which are being excluded in good faith for legal or operational reasons. Within twenty-one (21) days of, but no less than fourteen (14) days prior to the Closing Date, Seller will provide Buyer with a list of all deposits domiciled at the Branches that are subject to any Encumbrances other than Encumbrances related to Account Loans. Within five days of the Closing Date, Buyer will notify Seller of any deposits subject to Encumbrances that the Buyer has determined to exclude from the deposits to be transferred pursuant to this Agreement (referred to herein as Schedule 3.2B). The balances of the deposits after such exclusions, (collectively referred to herein as the "Deposits"), together with Accrued Interest thereon shall be reflected on an updated Schedule 3.2 as of the close of business on a date no more than forty-eight (48) hours prior to the Closing Date, which schedule shall also indicate the Deposits that constitute Core Deposits. The updated Schedule 3.2 shall be delivered by Seller to Buyer at the Closing. A final Schedule 3.2 shall reflect the Deposits as of the close of business on the Closing Date, shall indicate the Deposits that constitute Core Deposits and shall indicate the Deposits subject to Encumbrances other than Encumbrances related to Account Loans. The Buyer shall have the right upon notice to Seller to exclude any Deposits from the final Schedule 3.2 subject to any such Encumbrances. The final Schedule 3.2 shall be delivered to Buyer at the Post-Closing pursuant to Section 4.3. Seller shall provide Buyer with any information with respect to Core Deposits reasonably requested by the Buyer.

3.3 Account Loans. Within ten (10) business days after the date of this Agreement, Seller shall provide Buyer with a schedule of all savings account loans secured by deposits domiciled at the Branch Offices together with all accrued and unpaid interest thereon (referred to herein as Schedule 3.3). Schedule 3.3 shall set forth the unpaid principal balances, rates of interest and principal terms of such loans, and shall include a true copy of the forms of all contracts governing or specifying the terms of the borrowing relationships between Seller and the borrowers under such loans. Buyer may by notice to Seller exclude from Schedule 3.3 (i) any loan that is not current or is thirty (30) or more days delinquent, (ii) any loan that was not underwritten based upon Seller's normal underwriting standards, (iii) any loan that is not secured solely and fully by Deposits domiciled at the Branch Offices and (iv) any loan as to which Seller has been notified that the borrower has filed a petition in bankruptcy. An updated Schedule 3.3 of the loans remaining after any exclusions by Buyer and reflecting the balance of such loans (collectively referred to herein as "Account Loans"), together with accrued interest thereon as of the close of business on a date no more than forty-eight (48) hours prior to the Closing Date, and indicating the unpaid principal balances, rates of interest and principal terms of such Account Loans, shall be delivered by Seller to Buyer at the Closing. A final Schedule 3.3 shall reflect the balance of the Account Loans as of the close of business on the Closing Date. The final Schedule 3.3 shall be delivered to Buyer at the Post-Closing pursuant to Section 4.3. Buyer shall not purchase any loans under this Agreement other than the Account Loans.

3.4 Contracts. Within ten (10) business days after the date of this Agreement, Seller shall provide Buyer with a schedule of all contracts of any kind relating to the operation and the business of the Branch Offices, including, among other things, maintenance contracts, service contracts, note collection agreements, safe deposit box contracts, messenger contracts and personal property leases (such schedule to be referred to herein as Schedule 3.4). Schedule 3.4 shall indicate whether the consent of a third party is required in order for each such contract to be assigned to Buyer. Buyer shall have the right to inspect the contracts identified on Schedule 3.4 and may by notice to Seller exclude from Schedule 3.4 any contract that: (i) is not assignable by its terms or (ii) Buyer determines is not necessary or desirable for the operation of the Branch Offices, provided that Buyer may not exclude any maintenance contracts related to the Fixed Assets to be purchased by Buyer. An updated Schedule 3.4 listing all of the contracts remaining after any such exclusions (such contracts collectively referred to herein as the "Assumed Contracts") shall be delivered by Seller to Buyer at the Closing. Any contract not assumed by Buyer shall be deemed to have been retained by Seller and Buyer shall not be liable in any way with respect to any such non-assumed contracts.

ARTICLE IV

CLOSING

4.1 Closing. The closing of the transactions contemplated by this Agreement ("the Closing") and the closing of the transactions contemplated by the Branch Purchase and Assumption Agreement between Buyer and Seller shall take place simultaneously in the offices of the Buyer, at 1901 Harrison Street, Oakland, California on July 30, 1993, provided that such date shall be extended to a date on or before December 31, 1993 if (i)one or more of the conditions set forth in Article IX has not been satisfied or waived on or before such date and Seller or Buyer, as applicable, has diligently and in good faith attempted to satisfy such condition or conditions or (ii) it is reasonably necessary for Buyer to complete or facilitate the conversion of Seller's records to Buyer's data processing system or (iii) the time for closing the transactions contemplated by the Branch Purchase and Assumption Agreement has been extended. The date the Closing is to be held is referred to herein as the "Closing Date."

4.2 Payment Due At Closing. The amount owed Seller by Buyer pursuant to Section 2.4 will be deducted from the amount owed Buyer by Seller pursuant to Section 2.5 and netted with the amount due the appropriate party under Section 2.6 to determine the amount due Buyer from Seller as of the Closing (the "Cash Payment"). The Cash Payment shall be determined based on a preliminary. settlement statement substantially in the form attached hereto as Exhibit 2, to be delivered by the Seller to Buyer at the Closing (the "Preliminary Settlement Statement"). The Seller shall pay to Buyer by wire transfer of immediately available funds the Cash Payment so determined.

4.3 Post-Closing Adjustments. Following the Closing Date and after the final data necessary to prepare a definitive settlement sheet have been accumulated (including, without limitation, final schedules 1.1, 2.6, 3.1, 3.2, and 3.3 prepared as of the close of business on the Closing Date), Buyer and Seller shall hold a post closing (the "Post-Closing") for purposes of conducting an adjusting settlement using such final data. The difference between the Cash Payment and the final settlement amount (the "Final Payment") shall be transferred, together with accrued interest thereon from the Closing Date at the Federal Funds rate in effect on the Closing Date, to Seller from Buyer or to Buyer from Seller, as the case may be. In addition, the prorations contemplated under Section 2.6 that cannot be reasonably calculated at the Closing shall be settled at the Post-Closing. The Post-Closing will be held within fifteen (15) business days after the Closing Date or as mutually agreed upon by Buyer and Seller.

4.4 Disputes as to Calculations. Buyer and Seller agree to use their best effort to agree on the calculation of the Cash Payment and the Final Payment. In the event that the parties should fail to agree on either calculation, the parties agree to refer the matters in dispute with respect to such calculations to an independent firm of certified public accountants of national standing reasonably acceptable to Buyer and Seller. Buyer and Seller agree to be bound by the determination of such firm with respect to the disputed matter relating to the calculation of the Cash Payment or the Final Payment. Buyer and Seller agree to share equally the fees and charges of such accounting firm for its services in resolving such dispute. If in the resolution of the dispute, it is determined that one party owes an amount to the other party, the paying party shall also pay interest on such amount at the Federal Funds Rate from the date such amount should have been paid to the date of payment.

4.5 Deliveries by Seller. At or prior to the Closing, Seller shall deliver to Buyer the documents set forth in Section 9.2(k).

4.6 Deliveries by Buyer. At or prior to the Closing, Buyer shall deliver to Seller the documents set forth in Section 9.1(h).

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as follows:

5.1 Organization and Authority. Buyer is a savings and loan association duly organized and validly existing under the laws of the United States, with corporate power and authority to carry on its business as now being conducted and to own and operate the properties which it now owns and operates. The execution, delivery and performance by Buyer of this Agreement are within Buyer's corporate power, have been duly authorized

by all necessary corporate action on the part of Buyer and do not contravene or constitute a default under any provision of applicable law or regulation or of the charter or by-laws of the Buyer or any judgment, injunction, order, decree, material agreement or material instrument binding upon Buyer. This Agreement is a valid and binding obligation of Buyer except as may be limited by bankruptcy, insolvency, moratorium, receivership, conservatorship, reorganization or similar laws affecting the fights of parties dealing with federally chartered savings and loan associations generally.

5.2 Litigation. There is no action, suit or proceeding pending against Buyer, or to the Knowledge of Buyer threatened against or affecting Buyer, before any court or arbitrator or any governmental body, agency or official which would have a material adverse effect upon the ability of Buyer to perform its obligations under this Agreement or which in any manner questions .the validity of this Agreement.

5.3 Governmental Notices. Buyer has received no notice from any federal or other governmental agency indicating that such agency would oppose or not grant or issue its consent or approval, if required, with respect to the transactions contemplated hereby or would qualify or condition its consent or approval in a manner which would adversely affect the economic bargain reflected herein. Buyer has no Knowledge of any facts peculiar to Buyer, including but not limited to any failure to comply with applicable law, which could reasonably be expected to form the basis for denial of regulatory approval of the transactions contemplated by this Agreement, and Buyer agrees to notify Seller promptly upon acquiring Knowledge of any such facts.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Buyer as follows:

6.1 Organization and Authority. Seller is a savings bank duly organized and validly existing under the laws of the United States with corporate power and authority to carry on its business as now being conducted and to own and operate the properties which it now owns and operates. The execution, delivery and performance by Seller of this Agreement is within its corporate powers, has been duly authorized by all necessary corporate action on its part and does not contravene or constitute a default under any provision of applicable law or regulation or of the charter or by-laws of Seller or any judgment, injunction, order, decree, material agreement or material instrument binding upon Seller or to which any of the Assets are subject or result in the creation or imposition of any lien or encumbrance on such Assets. This Agreement is a valid and binding obligation of Seller except as may be limited by bankruptcy, insolvency, moratorium, receivership, conservatorship, reorganization or similar laws affecting the fights of parties dealing with federally chartered savings and loan associations generally.

6.2 Litigation. There is no action, suit or proceeding pending against Seller or to the Knowledge of Seller threatened against or affecting Seller, before any court or arbitrator or any governmental body, agency or official which would have a material adverse effect upon the ability of Seller to perform its obligations under this Agreement or which in any manner questions the validity of this Agreement, or which would have a material adverse effect upon the aggregate value of the Deposits or Assets or the operation of the Branch Offices.

6.3 Governmental Notices. Seller has received no notice from any federal or other governmental agency indicating that such agency would oppose or not grant or issue its consent or approval, if required, with respect to the transactions contemplated hereby, or would qualify or condition its consent or approval in a manner which would adversely affect the economic bargain reflected herein. Seller has no Knowledge of any facts peculiar to Seller, including but not limited to any failure to comply with applicable law, which could reasonably be expected to form the basis for denial of regulatory approval of the transactions contemplated by this Agreement, and Seller agrees to notify Buyer promptly upon acquiring Knowledge of any such facts.

6.4 Compliance with Law. Seller holds all licenses, franchises, permits and authorizations necessary for the lawful conduct of its business at the Branch Offices, and has not violated, and is not in violation of, any applicable statute, law, ordinance, rule or regulation of any Federal, state, local or foreign governmental body, agency or subdivision having, asserting or claiming jurisdiction over it or over any part of its operations at the Branch Offices. The deposits domiciled at the Branch Offices are insured by the FDIC up to the current applicable maximum limits. With reference to the Interest and Dividend Tax Compliance Act of 1983 and the regulations promulgated by the Internal Revenue Service thereunder, Seller (i) has exercised due diligence, as defined in such regulations, for all accounts opened prior to January 1, 1984; (ii) has exercised due diligence, as defined in such regulations, for the deposits domiciled at the Branch Offices opened on or after January 1, 1984 but prior to January 1, 1990 and, for all such deposits, has either obtained a certified taxpayer identification number of the accountholder or obtained an "awaiting-TIN" certification from the accountholder and is performing back-up withholding on any account having an "awaiting-TIN" certification for which a certified taxpayer identification number was not subsequently obtained; (iii) has exercised due diligence, as defined in such regulations, for the deposits domiciled at the Branch Offices opened after January 1, 1990, and for such deposits has obtained a certified taxpayer identification number of the accountholder at the time the account was opened; and (iv) will deliver all such certification forms to Buyer at the Closing.

6.5 Title to Assets. Seller is the lawful owner of and has good and marketable title to the Assets, free and clear of all Encumbrances, except as disclosed on Schedule 3.1. Delivery to Buyer of the instruments of transfer of ownership contemplated by this Agreement will vest good and marketable title to those Assets in Buyer, free and clear of all Encumbrances, except as disclosed on Schedule 3.1.

6.6 Deposits. The total Deposits as of the date of this Agreement were approximately $364 million. All of the Deposits were, and will be at the Closing Date, issued in compliance with all applicable laws, orders and regulations.

6.7 Insurance. All of the assets and properties of Seller at the Branch Offices are covered by insurance in amounts at least equal to their respective fair market values and insurance against such losses as are generally insured against by comparable businesses. In addition, the Branch Offices are insured against casualties and such other events as are included in extended coverage fire and casualty policies. All amounts due and payable under such insurance policies are fully paid, and all such insurance policies are in full force and effect.

6.8 Taxes. For all periods up to and including the Closing Date, Seller has paid in full all taxes (including any additions to tax, penalties and interest), withholding and other governmental charges imposed by the United States or by any state, municipality, subdivision or instrumentality of the United States or by any other taxing authority, that have or will become due and payable prior to the Closing.

6.9 Financial Information. Seller's 1992 Audited Annual Report has been prepared in accordance with generally accepted accounting principles consistently applied. All schedules to be delivered by Seller to Buyer pursuant to this Agreement shall be true, complete and accurate in all material respects.

6.10 Information for Regulatory Approvals. The information furnished or to be furnished by Seller to Buyer pursuant to Section 8.4 of this Agreement for the purpose of enabling Buyer to complete and file an application with the OTS will be true and complete as of the date so furnished.

6.11 Operation. To the Knowledge of Seller, the improvements at each of the Branch Offices and the current use and operation thereof are in compliance with and authorized by applicable zoning and other land use regulations, including without limitation building, fire, health, safety, hazardous waste and environmental codes and all private covenants, restrictions and easements. There are no facts or circumstances existing or, to the Knowledge of Seller, threatened which could have a material adverse effect on the present or future use of any of the Branch Offices as a banking office as currently operated by Seller. Seller has neither received notice nor has Knowledge that any governmental authority nor any employee or agent thereof considers any of the Branch Offices to violate or to have violated any fire, zoning, health, building, hazardous waste or environmental code or other ordinance, law or regulation or order of any government or any agency, body or subdivision thereof, and no such violations exist.

6.12 Condemnation. Seller has no notice of any pending nor Knowledge of any threatened proceeding, in eminent domain or otherwise, which would affect the Branch Offices, or any portion thereof, nor does Seller know of any facts which might give rise to

such action or proceeding. Seller has no Knowledge of any existing, proposed or contemplated plan to widen, modify or realign any street or highway contiguous to any Branch Office. To the Knowledge of Seller, there are no intended public improvements which will result in any charge being levied or assessed against, or in the creation of any lien upon, the Branch Offices.

6.13 Account Loans. Each Account Loan is a legal valid and binding obligation of the borrower thereof, enforceable in accordance with its terms, except as such enforceability may be subject to or limited by bankruptcy, insolvency, reorganization, moratorium, or other similar laws relating to or affecting the rights of creditors generally. Seller owns each Account Loan free and clear of all liens, claims and encumbrances. The Account Loans and the origination and administration of such loans comply with all applicable federal and state laws and regulations, including, but not limited to, Regulation E, Regulation B, usury laws and truth in lending laws.

6.14 Employees.

(a) Schedule. Within ten (10) business days after the date of this Agreement, Seller shall deliver to Buyer a true and complete list of each Company Employee Plan and each Employee Agreement (referred to herein as Schedule 6.14(a)). Except as disclosed on this Schedule 6.14(a), neither the Seller nor any ERISA Affiliate has any plan or commitment, whether legally binding or not, to establish any new Company Employee Plan or Employee Agreement, to modify any Company Employee Plan or Employee Agreement (except to the extent required by law or to conform any such Company Employee Plan or Employee Agreement to the requirements of any applicable law, in each case as previously disclosed to Buyer), or to enter into any Company Employee Plan or Employee Agreement, nor has any intention to do any of the foregoing been communicated to Employees.

(b) Documents. The Seller has provided or will provide within ten (10) business days from the date of this Agreement to Buyer (i) current, accurate and complete copies of all documents embodying or relating to each Company Employee Plan and each Employee Agreement, including all amendments thereto and written interpretations thereof; (ii) the most recent summary plan description together with the most recent summary of material modifications, if any, required under ERISA with respect to each Company Employee Plan; and (iii) all material communications to any Employee or Employees relating to each Company Employee Plan and any proposed Company Employee Plans.

(c) Employee Plan Compliance. (i) The Seller and each ERISA Affiliate has performed in all material respects all obligations required to be performed by them under each Company Employee Plan and each Company Employee Plan has been established and maintained in all material respects in accordance with its terms and in compliance with all applicable laws, statutes, orders, rules and regulations, including but not

limited to ERISA and the Code; (ii) each Company Employee Plan intended to qualify under Section 401 of the Code is, and since its inception has been, so qualified and a determination letter has been issued by the IRS to the effect that each such Company Employee Plan is so qualified and that each trust forming a part of any such Company Employee Plan is exempt from tax pursuant to Section 501(a) of the Code and no circumstances exist which would adversely affect this qualification or exemption; (iii) no "prohibited transaction," within the meaning of Section 4975 of the Code or Section 406 of ERISA, has occurred with respect to any Company Employee Plan; (iv) no action or failure to act and no transaction or holding of any asset by, or with respect to, any Company Employee Plan has or may subject the Seller, any ERISA Affiliate or any fiduciary to any material tax, penalty, liability or other disability, whether by way of indemnity or otherwise; and (v) there are no actions, proceedings, suits or claims pending, or to the Knowledge of the Seller, threatened or anticipated (other than routine claims for benefits) against the Seller or any ERISA Affiliate with respect to any Company Employee Plan, or against any Company Employee Plan or against the assets of any Company Employee Plan.

(d) Pension Plans. (1) With respect to each Pension Plan, (i) no steps have been taken to terminate any Pension Plan (other than the Southwest Gas Management Incentive Plan) now maintained or contributed to by the Seller or any ERISA Affiliate, no termination of any Pension Plan has occurred pursuant to which all liabilities have not been satisfied in full, no liability under Title IV of ERISA has been incurred by the Seller or any ERISA Affiliate which has not been satisfied in full, and no event has occurred and no condition exists that could reasonably be expected to result in the Seller or any ERISA Affiliate incurring a liability under Title IV or could constitute grounds for terminating any Pension Plan; (ii) no proceeding has been initiated by the PBGC to terminate any Pension Plan or to appoint a trustee to administer any Pension Plan; (iii) each Pension Plan which is subject to Part 3 of Subtitle B of Title I of ERISA or Section 412 of the Code, has been maintained in compliance with the minimum funding standards of ERISA and the Code and no such Pension Plan has incurred any "accumulated funding deficiency," as defined in Section 412 of the Code and Section 302 of ERISA, whether or not waived; (iv) neither the Seller nor any ERISA Affiliate has sought or received a waiver of its funding requirements with respect to any Pension Plan and all contributions payable with respect to each Pension Plan have been timely made; and (v) no reportable event, within the meaning of Section 4043 of ERISA, and no event described in Section 4062 or 4063 of ERISA, has occurred with respect to any Pension Plan.

(2) At no time since January 1, 1980 has the Seller or any ERISA Affiliate contributed to or been required to contribute to, or incurred any withdrawal liability (within the meaning of Section 4201 of ERISA) to any Multiemployer Plan which liability has not been fully paid as of the date hereof.

(e) Effect of Transaction. Except as set forth in Schedule 15.14(e), the execution of, and performance of the transactions contemplated in, this Agreement will not (either alone or upon the occurrence of any additional or subsequent events) constitute

an event under any Company Employee Plan, Employee Agreement, trust or loan that will or may result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, .increase in benefits or obligation to fund benefits with respect to any Employee.

(f) Employment Matters. The Seller and each of its subsidiaries (i) is in compliance in all material respects with all applicable federal, state and local laws, rules and regulations (domestic and foreign) respecting employment, employment practices, terms and conditions of employment and wages and hours, in each case, with respect to Employees; (ii) has withheld all amounts required by law or by agreement to be withheld from the wages, salaries and other payments to Employees; (iii) is not liable for any arrears of wages or any taxes or any penalty for failure to comply with any of the foregoing; and (iv) other than routine payments to be made in the normal course of business and consistent with past practices, is not liable for any payment to any trust or other fund or to any governmental or administrative authority, with respect to unemployment compensation benefits, social security or other benefits for Employees.

(g) Labor. (1) No work stoppage or labor strike against the Seller or any of its subsidiaries is pending or threatened by the Employees or with respect to the Branch Offices. Except as set forth on Schedule 6.14(g), neither the Seller nor any of its subsidiaries is involved in, has notice of, or, to Seller's Knowledge, is threatened with any labor dispute, grievance, or litigation relating to labor, safety or discrimination matters involving any Employee, including, without limitation, violation of any federal, state or local labor or employment laws (domestic or foreign), charges of unfair labor practices or discrimination complaints, which, if adversely determined, would, individually or in the aggregate, result in material liability to the Seller or any of its subsidiaries. Neither the Seller nor any of its subsidiaries has engaged in any unfair labor practices within the meaning of the National Labor Relations Act or the Railway Labor Act which would, individually or in the aggregate, directly or indirectly result in material liability to the Seller or any of its subsidiaries.

(2) Except as set forth on Schedule 6.14(g), neither the Seller nor any of its subsidiaries is presently, or has been in the past a party to, or bound by, any collective bargaining agreement or union contract with respect to Employees and no collective bargaining agreement is being negotiated by the Seller or any of its subsidiaries with respect to the Employees.

ARTICLE VII

COVENANTS OF BUYER

7.1 Regulatory Notices and Application. After the date of this Agreement, Buyer shall prepare and file, with the cooperation and assistance of the Seller, all required

notices and applications for regulatory approval of the transactions contemplated by this Agreement. Buyer shall use its best efforts to obtain all consents, approvals or authorizations of all governmental agencies required for the consummation of the transactions contemplated hereby.

7.2 Further Assurance. On or after the Closing Date, Buyer shall give such further assurances to Seller and upon Seller's request shall execute, acknowledge and deliver all such acknowledgements and other instruments and take such further action as may be necessary or appropriate to effectively relieve and discharge Seller from any obligations assumed by Buyer under this Agreement; provided, however, that Buyer need not incur any material costs or expenses in connection with the undertakings contained in this Section unless such costs or expenses are agreed to be reimbursed by Seller.

7.3 Performance of Liabilities. After the Closing Date, Buyer agrees (i) to pay, subject to Seller's compliance with Section 8.11 hereof, to the extent of sufficient available funds on deposit, all properly drawn checks, drafts and non-negotiable withdrawal orders timely presented by mail, over its counters or through clearings by depositors whose deposits or accounts on which such items are drawn are subject to sale pursuant to this Agreement, whether drawn on the check or draft form provided by Seller or on those provided by Buyer, and (ii) to remit to Seller promptly all payments relating to loans not purchased by Buyer under this Agreement; provided, however, that Buyer shall have no liability to Seller for the failure of the Seller to receive any such remittance.

ARTICLE VIII

COVENANTS OF SELLER

8.1 Access to Records and Information: Personnel: Customers: Employees.

(a) Between the date of this Agreement and the Closing Date, Seller shall afford to Buyer and its authorized agents and representatives full access upon reasonable notices, during normal business hours, to the properties, operations, books, records, contracts, documents, loan files and other information of or relating to the Branch Offices. Seller shall cause its personnel to provide assistance to Buyer in Buyer's investigation of matters relating to the Branch Offices; provided, however, that Buyer's investigation shall be conducted in a manner which does not unreasonably interfere with Seller's normal operations, customers and employee relations.

(b) Between the date of this Agreement and the Closing Date, Seller will use its best efforts to maintain good relations with employees employed at the Branch Offices. Buyer may communicate with employees at the Branch Offices With Seller's consent, which consent shall not be unreasonably withheld, and at Buyer's expense may conduct training sessions for such employees at such offices, or elsewhere, provided that

such training sessions do not unreasonably interfere with operations at such offices.

(c) Within ten (10) days following the date of this Agreement, Seller will provide Buyer with records and information relating to the operation of the Branch Offices that Buyer deems reasonably necessary for the purpose of converting such information to Buyer's data processing systems (referred to herein as Schedule

8.2 Conduct of Business Pending Closing. Between the date hereof and the Closing Date, Seller shall conduct its operations related to the Branch Offices in the ordinary course of business and shall not take any action that would adversely affect the assets or the liabilities to be acquired or assumed hereunder. Without limiting the foregoing, Seller shall not, without the prior written consent of Buyer:

(a) offer rates or terms on accounts at the Branch Offices that are inconsistent with Seller's practices during calendar year 1993, as reflected by the historical relationship between the rates offered by the Seller and U.S. Treasury rates for similar product maturities;

(b) cause any Branch Offices to transfer to or obtain from Seller's other operations or branches any Assets;

(c) cause any Branch Office to transfer to Seller's other operations any deposits, except upon the unsolicited request of a depositor; provided that Seller may contact depositors whose primary or seasonal address is in Nevada and who have no primary or seasonal address in Arizona to solicit the transfer of such accounts to one of Seller's Nevada branches;

(d) create or suffer to exist any new Encumbrance on the Assets, or otherwise enter into any material transaction or otherwise make any material commitments relating to the Assets;

(e) increase or agree to increase the salary, remuneration or compensation of persons employed at the Branch Offices other than in accordance with Seller's customary policies; or

(f) open or establish any new deposit accounts, loan products or services that are not currently offered by Buyer, including, but not limited to, issuing any new ATM, guarantee or debit cards, opening any new commercial checking or collection accounts, or selling any securities products at its Branch Offices.

8.3 New Employees. Seller shall consult with Buyer prior to hiring any new employees at the Branch Offices or transferring employees to or from the Branch Offices and Seller's other operations.

8.4 Regulatory Approvals. Seller shall use its best efforts to assist Buyer in obtaining all regulatory approvals necessary to complete the transactions contemplated hereby, and Seller will provide to Buyer or to the appropriate regulatory authorities all information reasonably required to be submitted by Seller in connection with such approvals.

8.5 Contents: Compliance With Law. Seller shall obtain all consents and releases of third parties necessary to consummate the transactions contemplated by this Agreement, and shall comply with all applicable laws, regulations and rulings in connection with this Agreement and the consummation of the transactions contemplated hereby.

8.6 Repair or Substitution of Fixed Assets. Seller will repair, replace or refund the purchase price of any Fixed Asset with a Net Book Value as of the Closing Date in excess of $1000 which Buyer notifies Seller is malfunctioning within ten (10) business days after the Closing Date to the extent that the malfunction is not the result of abuse or neglect by Buyer. Seller shall have twenty (20) business days after notification by Buyer to repair such Assets, replace them with assets of comparable quality and use, or refund the purchase price of such Fixed Assets to Buyer.

8.7 Removal of Property.

(a) Seller shall remove, at its own expense, all property not included on Schedule 3.1, and, after consultation with Buyer, shall restore all walls, fixtures and appurtenances of the Branch Offices to which such property is attached or affixed to their condition prior to the attachment or affixing of such property, normal wear and tear excepted. All such property will be removed at a convenient time to be mutually agreed upon by the parties.

(b) Seller will void as of the close of business on the day prior to the Closing Date all ATM access cards, check guarantee cards and debit cards issued by it to customers of the Branch Offices and will cooperate with Buyer in notifying the customers in writing at least fifteen (15) days prior to the Closing Date of such cancellation of cards.

(c) Seller shall remove, as of the dose of business on the Closing Date, any supply of negotiable instruments stock, including, without limitation, all money orders and traveler's checks, located at the Branch Offices on the Closing Date.

8.8 Insurance Policies. Seller will maintain in effect until the Closing the insurance referred to in Section 6.7.

8.9 Furnishing Information. Seller shall provide all information, financial statements and documentation as Buyer shall reasonably request in connection with the transactions contemplated by this Agreement; provided that Seller shall not be obligated to disclose confidential or proprietary information not related to the Branch Offices.

8.10 Operation of Branch Offices. From and after the date of this Agreement until the Closing Date, Seller shall operate and manage the Branch Offices in accordance with all applicable federal, state and local laws, ordinances and requirements and maintain the Branch Offices in .good order, condition and repair. Seller shall punctually pay and perform all of its obligations under service and maintenance contracts, and pay before delinquency all taxes, assessments, utility charges and other expenses affecting the Branch Offices.

8.11 Further Assurances. On or after the Closing Date, Seller shall (i) give such further assistance to Buyer and upon Buyer's request shall execute, acknowledge and deliver all such bills of sale, deeds, acknowledgements and other instruments and take such further action as may be necessary or appropriate effectively to vest in Buyer full, legal and equitable tire to the Assets, and (ii) use its best efforts to assist Buyer in the orderly transition of the operations being acquired by Buyer. In particular, and without limiting the foregoing:

(a) Seller will remit to Buyer promptly after receipt by Seller after the Closing Date at any of its other offices all payments relating to Account Loans or mounts intended for deposit to the accounts which are part of the Deposits; and

(b) With respect to checks or drafts drawn against accounts which are Deposits, Seller will cooperate with Buyer and take all reasonable steps requested by Buyer to ensure that, after the Closing Date, each such item which is coded for presentment to Seller or to any bank for the account of Seller is delivered to Buyer in a timely manner and in accordance with applicable law and clearing house rule or agreement.

ARTICLE IX

CONDITIONS TO CLOSING

9.1 Conditions to the Obligations of Seller. Unless waived in writing by Seller, the obligations of Seller to consummate the transactions contemplated by this Agreement are subject to the satisfaction at or prior to the Closing of the following conditions:

(a) Performance. Each of the material acts and undertakings of Buyer to be performed at or before the Closing (including the covenants contained herein) pursuant to this Agreement shall have been duly performed in all material respects.

(b) Representations and Warranties. The representations and warranties of Buyer contained in article V of this Agreement shall be true and correct in all material respects on and as of the Closing Date with the same effect as though made on and as of the Closing Date.

(c) Regulatory Approvals. All licenses, approvals and consents of any relevant state, federal or other regulatory agencies required for the consummation of the transactions contemplated hereby shall have been obtained, all applicable waiting periods shall have expired, and all necessary conditions of those licenses, approvals and consents shall have been fully satisfied; provided, however, that if any licenses, approvals or consents are qualified or conditioned in any manner which materially and adversely affects the economic bargain reflected herein, this condition may be deemed unfulfilled.

(d) Absence of Proceedings and Litigation. The consummation of the transactions contemplated by the Agreement shall not be precluded by any order, injunction, decree or ruling of a court of competent jurisdiction or any governmental entity, and there shall not have been any action taken or any statute, rule, or regulation enacted or promulgated by any governmental entity which would prevent or otherwise make unlawful the consummation of the transactions contemplated by the Agreement.

(e) Non-Competition Agreement. Buyer shall have executed the Non-Competition Agreement between Buyer, Seller and Southwest Gas Corporation, and payment thereunder shall be made at Closing.

(f) Consulting Agreement. Buyer shall have executed the Consulting Agreement between Buyer and Seller, and payment thereunder shall be made at Closing.

(g) Branch Purchase and Assumption Agreement. Buyer shall have executed the Branch Purchase and Assumption Agreement between Buyer and Seller, and the transactions contemplated therein shall close concurrently herewith.

(h) Documents. Seller shall receive the following documents from Buyer at the Closing:

(1) An executed Assumption Agreement substantially in the form of Exhibit 3 hereto.

(2) A certificate signed by a duly authorized officer of Buyer stating that the conditions set forth in Sections 9.1(a), (b), (c), (d), (e), (f) and (g) have been fulfilled.

(3) A certificate of the Secretary or Assistant Secretary of Buyer as to the incumbency and signatures of officers.

(4) The items required to be delivered pursuant to Section 10.2(b) of the Branch Purchase and Assumption Agreement.

9.2 Conditions to the Obligations of Buyer. Unless waived in writing by Buyer, the obligations of Buyer to consummate the transactions contemplated by this Agreement are subject to the satisfaction at or prior to the Closing of the following conditions:

(a) Performance. Each of the material acts and undertakings of Seller to be performed at or before the Closing (including the covenants contained herein) pursuant to this Agreement shall have been duly performed in all material respects.

(b) Representations and Warranties. The representations and warranties of Seller contained in Article VI of this Agreement shall be true and correct in all material respects on and as of the Closing Date with the same effect as though made on and as of the Closing Date.

(c) Regulatory Approvals. All licenses, approvals and consents of any relevant state, federal or other regulatory agencies required for the consummation of the transactions contemplated hereby shall have been obtained, all applicable waiting periods shall have expired and all necessary conditions of those licenses, approvals and consents shall have been fully satisfied; provided, however, that if any such license, approvals or consents are qualified or conditioned in any manner which materially and adversely affects the economic bargain reflected herein, this condition may be deemed unfulfilled.

(d) Absence of Proceedings and Litigation. The consummation of the transactions contemplated by the Agreement shall not be precluded by any order, injunction, decree or ruling of a court of competent jurisdiction or any governmental entity, and there shall not have been any action taken or any statute, rule, or regulation enacted or promulgated, by any governmental entity which would prevent or otherwise make unlawful the consummation of the transactions contemplated by the Agreement.

(e) Non-Competition Agreement. Seller and Southwest Gas shall have executed the Non-Competition Agreement, and payment thereunder shall be made at Closing.

(f) Consulting Agreement. Seller shall have executed the Consulting Agreement, and payment thereunder shall be made at Closing.

(g) Branch Purchase and Assumption Agreement. Seller shall have executed the Branch Purchase and Assumption Agreement and the transactions contemplated therein shall close concurrently herewith.

(h) No Material Adverse Change. No material adverse change since the date of this Agreement shall have occurred affecting the Branch Offices, the Assets or the Deposits or the ability to conduct banking operations at the Branch Offices.

(i) Consents of Third Parties. Seller shall have obtained all consents and authorizations of third parties, in form and substance satisfactory to Buyer, necessary to consummate the transactions contemplated by this Agreement without violation of any lease, contract, loan or other agreement to which Seller is a party.

(j) Opinion of Counsel. Buyer shall have received an opinion of counsel for Southwest Gas Corporation, satisfactory to Buyer, to the effect that no notice or application need be filed with any public utilities commission or utility regulatory authority in order to consummate the transactions contemplated by this Agreement.

(k) Closing Documents. Buyer shall receive the following documents from Seller at the Closing:

(1) A certificate signed by duly authorized officer of Seller stating that the conditions set forth in Sections 9.2(a), Co), (c), (d), (e), (f), (g), (h), (i) and (j) have been satisfied;

(2) Certificates from the Secretaries or Assistant Secretaries of Seller as to the incumbency and signatures of officers;

(3) Schedules 1.1 and 2.6 and updated Schedules 3.1, 3.2, 3.3 and 3.4;

(4) The Preliminary Settlement Statement and any exhibits thereto;

(5) An executed Bill of Sale and Assignment substantially in the form attached as Exhibit 4;

(6) An executed Assumption Agreement substantially in the form attached as Exhibit 3;

(7) An affidavit of non-foreign status as required by Section 1445(b)(2) of the Code; and

(8) The items required to be delivered pursuant to Section 10.2(a) of the Branch Purchase and Assumption Agreement.

ARTICLE X

TERMINATION

10.1 Events of Termination. This Agreement shall be terminable and, if so terminated, be of no further force or effect between the parties hereto, except as to any liability for breach of any duty, representation, warranty or obligation arising prior to the date of termination, upon the occurrence of any of the following events:

(a) By mutual written consent of Seller and Buyer;

(b) By Seller, if any of the conditions set forth in Article 9.1 have not been met by December' 31, 1993, unless the failure to meet such conditions does not constitute a material breach by Buyer of this Agreement;

(c) By Buyer, if any of the conditions set forth in Article 9.2 have not been met by December 31, 1993, unless the failure to meet such conditions does not constitute a material breach by Seller of this Agreement;

(d) By Buyer, if it discovers information or conditions that axe, individually or in the aggregate, materially and adversely different from the information and conditions contained in this Agreement, including the information contained in the original and updated Schedules hereto;

(e) By Buyer, if there is a material adverse change, in the reasonable judgment of the Buyer, in the condition or value of the Branch Offices or in the amount of, or other characteristics associated with, the Deposits;

(f) By either party, if a representation or warranty of the other party is or becomes false or inaccurate or if the other party fails to comply with a covenant in a timely manner, provided that such breach is material to the value or condition of the Branch Offices or such breach has a material impact on the other party's ability to consummate the transactions contemplated hereby; or

(g) By either party, if the OTS, or any other governmental agency having jurisdiction over the transactions contemplated by this Agreement notifies Seller or Buyer in writing that by its final determination it will refuse to grant an approval or consent necessary to the consummation of the transactions contemplated hereby.

10.2 Manner of Termination. Notwithstanding anything to the contrary contained herein, neither party hereto shall have the right to terminate this Agreement on account of its own breach or any immaterial breach by the other party. If a party desires to terminate this Agreement pursuant to any right under this Article X, such termination

shall be ineffective unless communicated in writing to the other party.

ARTICLE XI

EMPLOYEES

11.1 Employees.

(a) Immediately upon the execution of this Agreement, Buyer may conduct employment interviews in the Branch Offices, or elsewhere, with each of those Employees which Buyer, in its sole discretion shall select; provided, however, in no event shall Buyer have any obligation to hire any Employee. Seller shall deliver upon Buyer's request and upon receipt of written consent and a release from the affected Employee, copies of the personnel files for each Employee which the Buyer indicates it may desire to hire. Buyer will provide written notice to Seller not less than thirty (30) days prior to Closing of the names of any Employee who will be offered employment by the Buyer (referred to herein as Schedule 11.1). Salary, position and other terms of employment of any Employee hired, or proposed to be hired, by Buyer shall be within the sole discretion of Buyer. Buyer agrees to conduct all interviews of Employees and to make all hiring decisions with respect to Employees in a manner consistent with all applicable federal and state laws, rules and regulations governing hiring and employment practices.

(b) On or before the Closing Date, Seller will pay to Employees (i) all salary earned through the Closing Date, (ii) all compensation for vacation days and sick days (if payable) accrued but unused as of the Closing Date, and (iii) all severance pay and other entitlement including any entitlement under the WARN Act which may be owing to any Employee whose employment by the Seller or any of its subsidiaries is terminated or is deemed terminated on or before the Closing Date by reason of the transactions contemplated hereby or otherwise.

11.2 Employee Benefits.

(a) Buyer is not assuming, nor shall Buyer have responsibility for the continuation of, or for any liabilities under or in connection with, any of the following:

(1) any Company Employee Plan;

(2) any Pension Plan; or

(3) any liability with respect to Employees under the WARN Act.

(b) Seller shall remain responsible for all liabilities under or in connection with all of the following:

(1) any Company Employee Plan;

(2) any Pension Plan; and

(3) any liability with respect to Employees under the WARN Act.

Seller shall provide Buyer an opportunity to review and approve any notice Seller determines to send to Employees under the WARN Act, including any letter transmitting such notice.

(c) Neither Buyer nor Seller intend this Article XI to create any fights or interests, except as between Buyer and Seller, and no Employee shall be treated as a third party beneficiary in or under this Agreement.

11.3 Indemnity. Without limiting the generality of Section 13.2, the Seller shall indemnify Buyer, its. affiliates, subsidiaries,. shareholders, directors, officers, employees and agents, and each of the heirs, executors, successors and assigns of the foregoing, and hold each of them harmless from and against any Losses which may be incurred or suffered by any of them (i) under the WARN Act arising out of, or relating to, any actions taken by the Seller or any of its subsidiaries on or before the Closing Date; (ii) in connection with any claim made by any Employee for any severance pay or other compensation or benefit entitlement by reason of any Employee's termination or deemed termination of employment by the Seller or any of its subsidiaries as a result of the transaction contemplated hereby or otherwise; (iii) in connection with any claim made by any Employee for any benefit entitlement under any Company Employee Plan; (iv)arising out of or relating to the funding, operation, administration, amendment or termination of any Pension Plan, or the withdrawal or partial withdrawal from any Multiemployer Plan whether arising out of or relating to any event or state of facts occurring or existing before, on or after the Closing Date and including, but not' limited to, Losses arising under Tire IV of ERISA, Section 302 of ERISA or Section 412 or 4971 of the Code; and (v) by reason of the failure by the Seller to comply with any of the provisions of this Article XI.

ARTICLE XII

OTHER AGREEMENTS

12.1 Returned Items. Any items that were credited for deposit to an account at the Branch Offices prior to the Closing and are returned unpaid on or within three (3) months after the Closing ("Returned Items") will be handled as follows:

(a) Seller will advise Buyer of Returned Items on the date such Returned Items are received by Seller.

(b) If Buyer's bank account is charged for the Returned Item, Buyer will use its best efforts to obtain reimbursement from the account to which, or from the party to whom, the Returned Item was credited. If there are sufficient funds in the account to which such Returned Item was credited or any other accounts at any branch office of Buyer standing in the name of the party liable for such Returned Item, Buyer 'will debit any or all of such accounts an amount equal in the aggregate to the Returned Item. If those accounts do not contain funds sufficient to reimburse Buyer fully (for reasons other than Buyer's breach of Section 12.2), Seller will, upon notice from Buyer, immediately repay to Buyer the amount of the Returned Item and Buyer will assign the Returned Item to Seller for collection.

(c) If Seller's bank account is charged for the Returned Item and if there are sufficient funds in the account to which such Returned Item was credited or any other accounts on deposit at any branch office of Buyer standing in the name of the party liable for such Returned Item, Buyer will debit any or all of such accounts an amount equal in the aggregate to the Returned Item and shall repay that amount to Seller. If there are not sufficient funds in the accounts (for reasons other than Buyer' s breach of Section 12.2), Buyer will have no obligation to repay Seller unless and until Buyer obtains reimbursement from the party liable for the Returned Item.

12.2 Holds. Holds that have been placed by Seller on particular accounts or on individual checks, drafts, or other instruments will be continued by Buyer under the same terms. Seller will deliver to Buyer at the Closing a schedule of such holds (referred to herein as Schedule 12.2).

12.3 Direct Deposits. Seller will use reasonable efforts to transfer all direct deposit arrangements and wire transfers tied to accounts at the Branch Offices to Buyer as soon as practicable after the Closing. At least thirty (30) days prior to the Closing, Seller will deliver to Buyer a mass change magnetic tape containing all direct deposit records in ACH format. A test tape will be delivered to Buyer by Seller at least two (2) weeks prior to delivery of the final tape. After the Closing, Seller will, on a daily basis for the first (45) days and weekly thereafter, remit and transfer to Buyer all direct deposits intended for accounts at the Branch Offices; provided, however, that Seller's obligation to forward such deposits shall continue only for six (6) months from the closing Date. Thereafter, Seller will return all such direct deposits to the paying party. Immediately after such six (6) month period, Seller will deliver to Buyer a magnetic tape of customers whose direct deposits have not been transferred to Buyer.

12.4 Backup Withholding. Any amounts required by any governmental agencies to be withheld from any of the Deposits (the "Withholding Obligations") will be handled as follows:

(a) Any Withholding Obligations required to be remitted to the appropriate governmental agency prior to the Closing will be withheld and remitted by Seller and any other sums withheld by Seller pursuant to Withholding Obligations prior to the Closing shall also be remitted by Seller to the appropriate governmental agency on or prior to the time they are due.

(b) Any Withholding Obligations required to be remitted to the appropriate governmental agency on or after the Closing and not withheld by Seller as provided in clause (a) above will be remitted by Buyer.

12.5 Checking Accounts. Within thirty (30) days following the Closing, Buyer will provide holders of accounts which may be accessed by checks new checks MEEKER encoded with Buyer's identification number. Seller will pass through to Buyer checks received by it drawn on assumed accounts for a period of ninety (90) days following Closing. Buyer accepts full responsibility to either pay the items or return them in accordance with the customer agreement and the California Uniform Commercial Code. During the 90-day period, Seller will give Buyer a daily accounting of debits to its clearing account. Buyer shall immediately reimburse Seller by wire for such debits.

For a period of ninety (90) days following the Closing, Seller will out sort all Branch Office checks and prepare them to be couriered to the Buyer's service center. Buyer will arrange for all couriers necessary in regard to the check processing activity during this period. Buyer will settle for gross dollar amount of outsorted branch checks by wire transfer on day two (2) following delivery and will pay Seller interest on that amount for one (1) business day at a rate equal to the Federal Funds Rate. After the Closing, Seller will prepare a tape of the in clearings for the Branch Offices and transmit the tape and physical items nightly to Buyer's service center.

12.6 IRA and Keogh Accounts. Buyer will assume all IRA or Keogh deposits at the Branch Offices (to the extent such deposits are not excluded pursuant to Section 3.2) in accordance with and to the extent permitted by the applicable IRA and Keogh documents and Seller and Buyer shall use their respective reasonable efforts to facilitate such assumption. Seller will provide Buyer with the original trust documents for any IRA or Keogh deposits assumed by Buyer under this Agreement. Seller shall be responsible for all federal and state income tax reporting of IRAs and Keogh Plan Accounts ("Keoghs") for the period of time prior to the Closing Date. Buyer shall be responsible for all federal and state income tax reporting of IRAs and Keoghs from and after the Closing Date. Seller agrees that it will collect no fees for the transferred IRAs and Keoghs for 1993 without the prior written consent of Buyer. Seller and Buyer will cooperate with each other in effectuating the transfer of IRA and Keogh accounts hereunder.

12.7 Delivery of Records. Prior to the Closing, Seller will consult with the Buyer prior to delivery of the Records to the Buyer and, at or following the Closing, shall deliver only those Records which the Buyer has requested. Seller shall retain those Records

not delivered to Buyer. Following the Closing, subject to applicable law, each party shall provide the other party reasonable access to the Records in its possession.

12.8 Interest Reporting. Seller shall report through the Closing Date and Buyer shall report from the Closing Date all interest credited to, interest withheld from and early withdrawal penalties charged to the Deposits. Said reports shall be made to the holders of these accounts and to the appropriate federal and state regulatory or taxing authorities.

12.9 Notices to Depositors.

(a) Seller shall provide Buyer with a list of customer information, in such format as Buyer shall reasonably request, as soon as possible after the month-end prior to the scheduled Seller mailing referred to in Section 12.9(b). On the Closing Date, Seller shall provide Buyer a final customer list of the assumed accounts.

(b) No later than fifteen (15) days after receipt by Buyer of a letter from the OTS stating the date of transactions contemplated by this Agreement may be consummated and at least thirty (30) days before Closing, Seller shall notify the holders of deposit accounts domiciled at the Branch Offices of the pending acquisition. The notification will be based on the list referred to in the preceding paragraph and a log maintained at the subject Branch Offices of the new accounts opened since the date of said list. Seller shall provide Buyer with a copy of said log up to the date of Seller's mailing. Buyer shall send notification to the same holders setting out the details of its administration of the assumed accounts. Each party shall obtain the approval of the other on its notification letter(s).

(c) Buyer and Seller shall consult with each other as to the contents of any notices required under 12 U.S.C. Section 1831r-1 and the manner in which such notices shall be made.

12.10 Card Processing and Overdraft Coverage. Seller will provide Buyer with a magnetic tape of ATM card holders no later than sixty (60) days prior to the Closing Date in a format reasonably acceptable to Buyer.

12.11 ABA Number. Seller will use its reasonable efforts to transfer its Arizona ABA routing transit number to Buyer on the Closing Date.

12.12 Transition Assistance. At Seller's request, Buyer will, to the extent practicable, assist Seller in performing certain responsibilities Seller may have under this Article XII after the Closing Date. Seller shall reimburse all reasonable costs and expenses incurred by Buyer in performing such obligations promptly upon Buyer's request and shall indemnify, hold harmless and defend Buyer from and against any and all losses arising out of any actions, suits or other proceedings, claims or demands which relate to any assistance

given by Buyer to Seller as contemplated by this Section 12.12.

ARTICLE XIII

GENERAL PROVISIONS

13.1 Survival. The representations and warranties made by the parties to this Agreement shall not expire with, or be terminated or extinguished by, the Closing, but shall survive for a period of four (4) years following the Closing. The covenants and agreements set forth in this Agreement shall survive the Closing and shall continue until all obligations set forth herein shall have been performed or satisfied or they shall have been in accordance with their terms. Any fight of indemnification pursuant to Section 13.2 with respect to a claimed breach of a representation or warranty shall expire at the end of the four (4) year period referred to above unless on or prior to the expiration of such period, a claim has been made to the party from who indemnification is sought.

13.2 Indemnification.

(a) Seller shall indemnify, hold harmless and defend Buyer from and against, and reimburse Buyer for, any and all damage, loss, liability, cost, claim or expense (including reasonable attorneys' fees and expenses, at trial and appellate levels, and costs of investigation incurred in defending against and/or settling such damage, loss, liability, cost, claim or expense, and any amount paid in settlement thereof) incurred or suffered by Buyer in connection with (i) any material misrepresentation or breach of warranty, covenant or agreement made or to be performed by Seller pursuant to this Agreement, or (ii) any action taken or omitted to be taken by Seller or any transaction or any event occurring on or prior to the Closing Date, relating to Branch Office operations, the Assets or the Deposits, (iii) any loss sustained by Buyer as the result of Seller's disclosure of business records pertaining to the Branch Offices to third parties, or (iv) any employee benefits described in Section 11.2, and any suits or proceedings commenced in connection with any of the foregoing.

(b) Buyer shall indemnify, hold harmless and defend Seller from and against, and reimburse Seller for, any and all damage, loss, liability, cost, claim or expense (including reasonable attorneys' fees and expenses, at trial and appellate levels, and costs of investigation incurred in defending against and/or settling such damage, loss, liability, cost, claim or expense, and any amount paid in settlement thereof) incurred or suffered by Seller in connection with (i) any material misrepresentation or breach of. warranty, covenant or agreement made or to be performed by Buyer pursuant to this Agreement, or (ii) any action taken or omitted to be taken by Buyer, or any transaction or any event occurring after the Closing Date, relating to Branch Office operations, the Assets or the Deposits, to the extent that such operations, Assets or Deposits axe assumed by or transferred to Buyer.

(c) A party seeking indemnification pursuant to this Section 13.2 (an "indemnified party") shall give prompt notice to the party from whom such indemnification is sought (the "indemnifying party") of the assertion of any claim, or the commencement of any action or proceeding, in respect of which indemnity. may be sought hereunder. The indemnified party shall assist the indemnifying party in the defense of any such action or proceeding. The indemnifying party shall have the right to, and shall at the request of the indemnified party, assume the defense of any such action or proceeding, at its own expense. In any such action or proceeding, the indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at its own expense unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii)the named parties to any such suit, action or proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and, in the reasonable judgment of the indemnified party, representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them.

(d) An indemnifying party shall not be liable under this Section 13.2 for any settlement effected without its consent of any claim, litigation or proceeding in respect of which indemnity may be sought hereunder. The indemnifying party may settle any claim without the consent of the indemnified party, but only if the sole relief awarded is monetary damages that are paid in full by the indemnifying party. An indemnified party shall, subject to its reasonable business needs, use reasonable efforts to minimize the indemnification sought from the indemnifying party hereunder. Notwithstanding the foregoing, no investigation by an indemnified party at or prior to the Closing shall relieve an indemnifying party of any liability hereunder.

13.3 No Broker Or Finder. Each of the parties represents and warrants that it has dealt with no broker or finder, in connection with any of the transactions contemplated by this Agreement, and, insofar as it knows, no broker or other person is entitled to any commission or finder's fee in connection with any of these transactions. Seller and Buyer each agree to indemnify and hold harmless the other against any loss, liability, damage, cost, claim or expense incurred by reason of any brokerage commission, or finder's fee alleged to be payable because of any act, omission or statement of the indemnifying party.

13.4 Publicity. Except as required by law, neither party will issue any press release or public notice concerning the transactions contemplated by this Agreement without prior approval of the other party, which approval will not be unreasonably withheld.

13.5 Incorporation of Exhibits. All exhibits and schedules attached or to be delivered hereto and referred to herein are incorporated in this Agreement as though fully set forth hereto. A list of the Schedules to be delivered after the date of this Agreement is attached hereto as Exhibit 5.

13.6 Attorneys' Fees. Each party shall bear the cost of its own attorneys' fees incurred in connection with the preparation of this Agreement and consummation of the transactions described herein. Notwithstanding the foregoing, in any action between the parties seeking enforcement of any of the terms and provisions of this Agreement or in connection with any of the property described herein, the prevailing party in such action shall be awarded, in-addition to damage, injunctive or other relief, its reasonable costs and expenses, not limited to taxable costs, and reasonable attorneys' fees.

13.7 Costs. All recording, transfer, sales and documentary transfer taxes, fees, charges and assessments resulting or arising from the sale and purchase of the Assets and the assumption of the Deposits, not otherwise specifically allocated between the parties, shall be paid by the Seller, including, without limitation, all regulatory application fees to the OTS.

13.8 Notices. All notices, requests, demands and other communication given or required to be given under this Agreement shall be in writing, duly addressed to the parties as follows:

To Buyer:

J. L. Helvey
Group Senior Vice President
World Savings and Loan Association
1901 Harrison Street
Oakland, California 94612-3587

To Seller:

Dan J. Cheever
President and Chief Executive Officer
PriMerit Bank, FSB
P.O. Box 98599
Las Vegas, Nevada 89193

13.9 Assignment. This Agreement may not be assigned by either party without the prior written consent of the other party, and any attempted assignment in violation of this section shall be void.

13.10 Successors. This Agreement shall be binding upon the parties hereto and their respective successors.

13.11 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of California, exclusive of the conflict of laws provisions thereof. Each of the parties hereto hereby irrevocably and unconditionally consents to the exclusive jurisdiction of the courts of the State of California located in the County of Alameda and of the United States of America in and for the Northern District of California, for any actions, suits or proceedings arising out of or relating to this Agreement and the transactions contemplated hereby (and agrees not to commence any action, suit or proceeding relating thereto except in such courts).

13.12 Entire Agreement. This Agreement and the documents referred to herein contain all of the agreements of the parties to it with respect to the matters contained herein and no prior or contemporaneous agreement or understanding, oral or written, pertaining to any such matters shall be effective for any purpose. No provision of this Agreement may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors and expressly stating that it is an amendment of this Agreement.

13.13 Heading. The headings of this Agreement are for purposes of reference only and shall not limit or define the meaning of the provisions of this Agreement.

13.14 Severability. If any paragraph, section, sentence, clause or phrase contained in this Agreement shall become illegal, null or void or against public policy, for any reason, or shall be held by any court of competent jurisdiction to be illegal, null or void or against public policy, the remaining paragraphs, sections, sentences, clauses or phrases contained in this Agreement shall not be affected thereby.

13.15 Waiver. The waiver of any breach of any provision under this Agreement by any party hereto shall not be deemed to be a waiver of any preceding or subsequent breach under this Agreement.

13.16 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly authorized and executed this Agreement as of the date first above written.

WORLD SAVINGS AND LOAN ASSOCIATION

By: ________________________________
Title: Senior Vice President

PRIMERIT BANK, FSB

By ________________________________
Title: President & Chief Executive Officer

SCHEDULE 1

BRANCH OFFICES OF PRIMERIT BANK

Branch Name	Address
Fiesta Mall	1305 S. Alma School Road, Mesa
Power & Broadway	6750 E. Broadway, Mesa
Scottsdale	6929 E. Shea Boulevard, Scottsdale
Sun City - Grand	10659 Grand Avenue, Sun City
Sun City- Bell	10238 W. Bell Road, Sun City
Sun City West	19001 R.H. Johnson, Sun City West
Phoenix	1846 E. Camelback Road, Phoenix

SCHEDULE 2

OWNERSHIP STATUS OF BRANCH OFFICES

	Name of Branch	Interest to be Transferred
A.	Purchased Branches	
	Fiesta Mall	Fee
	Power & Broadway	Fee
	Scottsdale	Fee
	Sun City West	Fee
B.	Leased Branches	
	Sun City - Grand	Leasehold
	Phoenix	Leasehold

SCHEDULE 6.14(g)

SCHEDULE OF LABOR DISPUTES AND
OTHER MATTERS RELATING TO EMPLOYEES

SCHEDULE 6.14(e)

SCHEDULE OF CERTAIN EVENTS
UNDER COMPANY EMPLOYEE PLANS

EXHIBIT I

ALLOCATION OF PURCHASE PRICE IN ACCORDANCE
WITH SECTION 1060 OF THE INTERNAL REVENUE CODE

Allocation of Purchase Price under Section 2.4 of the Agreement:

A.	Fixed Assets	$_______________________________
B.	Account Loans	$_______________________________
C.	Core Deposit Intangible	$_______________________________
D.	Cash on Hand	$_______________________________
E.	Goodwill and/or going concern value	$_______________________________

EXHIBIT 2

WORLD SAVINGS AND LOAN ASSOCIATION
AND
PRIMERIT BANK, FSB

PRELIMINARY SETTLEMENT STATEMENT

This Preliminary Settlement Statement is provided by PriMerit Bank, FSB ("Seller") to World Savings and Loan Association ("Buyer") pursuant to the terms of the Agreement to Purchase Assets and Assume Liabilities dated as of May ____, 1993, between Buyer and Seller (the "Agreement"). Unless otherwise defined, all capitalized terms used in this Preliminary Settlement Statement shall have the meanings attributed to them in the Agreement.

Calculation of Cash Payment

A. Purchase Price under the Agreement equals the sum of:

Net Book Value of Fixed Assets as reflected on updated Schedule 3.1.	$___________________________
Net Book Value of Account Loans as reflected on updated Schedule 3.3	$___________________________
Cash On Hand as reflected on Schedule 1.1	$___________________________
Deposit Premium (Core Deposits as reflected on updated Schedule 3.2 ($) multiplied by 0.2%)	$___________________________
Total Purchase Price under Agreement	$___________________________

B. Deposits to be assumed (as reflected on updated Schedule 3.2) $___________________________

less Total Purchase Price	$___________________________
plus prorations for which Seller will reimburse Buyer	$___________________________
less prorations for which Buyer will reimburse Seller	$___________________________
equals CASH PAYMENT	$ ==========================

EXHIBIT 3

ASSUMPTION AGREEMENT

WORLD SAVINGS AND LOAN ASSOCIATION ("World Savings"), a federal savings and loan association, and PRIMERIT BANK, FSB ("PriMerit"), have executed and delivered this Assumption Agreement ("Assumption Agreement") pursuant to the terms of the Agreement to Purchase Assets and Assume Liabilities dated May ____, 1993 (the "Agreement"). Unless otherwise defined herein, all capitalized terms used in this Assumption Agreement shall have the meanings attributed to them in the Agreement.

For value received, World Savings hereby assumes, as of the close of business on the date hereof, all obligations of Seller to pay the principal amount of each Deposit plus Accrued Interest thereon assumed by World Savings under the terms of the Agreement. In addition, World Savings hereby assumes, as of the close of business on the date hereof, the obligations of PriMerit relating to the safe deposit box business conducted at the Branch Offices and the obligations of PriMerit under the Account Loans and the Assumed Contracts. Notwithstanding anything contained herein to the contrary, World Savings does not hereby assume, and shall have no liability for, any debts, liabilities or obligations of PriMerit of whatever kind or nature other than as specifically set forth herein.

This Assumption Agreement shall not create in any third parties (including, but not limited to, deposit account holders or borrowers): (a) any rights or remedies against World Savings which such parties did not have against PriMerit prior to the execution and delivery of this Assumption Agreement with respect to the debts, liabilities or obligations specifically assumed herein; or (b) any claims against World Savings with respect to deposits, other than for payment of principal and accrued interest as of the close of business on the date hereof; or (c) any claims against World Savings with respect to any deposit not fully and accurately reflected in final Schedule. 3.2; or (d) any claims against World Savings with respect to the Account Loans, other than for the administration thereof after the date hereof.

The Assumption Agreement shall be governed by and construed in accordance with the laws of the State of California, exclusive of the conflict of laws provisions thereof.

IN WITNESS WHEREOF, World Savings and PriMerit have caused this Assumption Agreement to be signed by their duly authorized officers as of the____________ day of ______________, 1993.

PRIMERIT BANK, FSB	WORLD SAVINGS AND LOAN ASSOCIATION
BY:_____________________________	BY:_______________________________________
[NAME]	[NAME]
[TITLE]	[TITLE]

EXHIBIT 4

BILL OF SALE AND ASSIGNMENT

For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, PRIMERIT BANK, FSB ("PriMerit") does hereby assign, grant, sell, transfer and deliver to WORLD SAVINGS AND LOAN ASSOCIATION ("World Savings"), its successors and assigns, in accordance with the Agreement to Purchase Assets and Assume Liabilities dated as of May _____, 1993 by and between World Savings and PriMerit (the "Agreement"), all of Seller's right, title and interest in and to all of the Fixed Assets, Account Loans, Cash on Hand, Records, Core Deposit Intangible and other assets related thereto. Unless otherwise defined herein, all capitalized terms used in this Bill of Sale and Assignment shall have the meanings attributed to them in the Agreement. PriMerit acknowledges that World Savings does not assume and shall have no liability for any debts, liabilities or obligations of PriMerit of any kind whatsoever except as specifically set forth in the Agreement or in any other writing executed by World Savings.

PriMerit does hereby covenant to World Savings, and its successors and assigns, that it is lawfully seized of the foregoing properties and assets; that it holds the foregoing properties and assets free and clear of all liens, claims, encumbrances, security interests, pledges, leases, equities, conditional sales contracts, charges, restrictions and chattel mortgages of any kind whatsoever, except as disclosed in a schedule delivered to World Savings under the Agreement; that it has good title to, and good and lawful authority to convey the foregoing properties and assets; and that it will protect and defend World Savings' right, title and interest in and to such properties and assets.

At any time after the date hereof, PriMerit shall, at the request of World Savings, execute and deliver any further instruments or documents and take all such further action as World Savings may reasonably request in order to transfer to and vest in World Savings all of PriMerit's right, title and interest in and to all of the foregoing properties and assets.

This Bill of Sale and Assignment shall be construed in accordance with and governed by the laws of the State of California exclusive of the conflict of laws provisions thereof.

This Bill of Sale and Assignment has been duly executed by Seller as of the_________ day of _____, 1993.

PRIMERIT BANK, FSB

By:_______________________________________
[Name]
[Title]

EXHIBIT 5

LIST OF SCHEDULES TO BE DELIVERED AFTER THE DATE OF THE AGREEMENT

I. Schedules to be Delivered by Seller to Buyer

Schedule 1.1	Schedule of Cash on Hand (at Closing and at Post-Closing)
Schedule 2.6	Deferred/Prepaid Expenses and Fees to be Prorated between Buyer and Seller (at Closing and at Post-Closing)
Schedule 3.1	Schedule of Fixed Assets (within 10 business days from the date of the Agreement, at Closing and at Post-Closing)
Schedule 3.2	Schedule of Deposits (within 10 business days from the date of the Agreement, at Closing and at Post-Closing)
Schedule 3.3	Schedule of Account Loans (within 10 business days from the date of the Agreement, at Closing and at Post-Closing)
Schedule 3.4	Schedule of Assumed Contracts (within 10 business days from the date of the Agreement and at Closing)
Schedule 6.14(a)	Schedule of Company Employee Plans and Employee Agreements (within 10 business days from the date of the Agreement)
Schedule 8.1(c)	Schedule of Information Relating to Operation of Branch Offices (at request of Buyer within 10 business days from the date of the Agreement)
Schedule 12.2	Schedule of Holds (at Closing)

II. Schedules to be Delivered by Buyer to Seller

Schedule 3.2A	Schedule of Deposit Accounts Excluded for Legal or Operational Reasons (not less than 30 days prior to Closing)
Schedule 3.2B	Schedule of Deposit Accounts Excluded due to Encumbrances Thereon (within 21 but no less than 14 days prior to Closing)
Schedule 11.1	Schedule of Employees to be Offered Employment by Buyer (not less than 30 days prior to Closing)

BRANCH PURCHASE AND ASSUMPTION AGREEMENT

This Branch Purchase and Assumption Agreement (the "Agreement") is made as of May 12, 1993, at Oakland, by PriMerit Bank, FSB, a Federal Savings Bank ("PriMerit"), and World Savings and Loan Association, a Federal Savings and Loan Association ("World ").

RECITALS

WHEREAS, World and PriMerit are contemporaneously entering into the Purchase Agreement (as defined herein) pursuant to which World will acquire certain assets and assume certain liabilities of PriMerit located in the State of Arizona; and

WHEREAS, PriMerit's execution of and performance under this Agreement are conditions to World's entering into and performing its obligations under the Purchase Agreement; and

WHEREAS, World's execution of and performance under this Agreement are conditions to PriMerit's entering into and performing its obligations under the Purchase Agreement;

NOW, THEREFORE, World and PriMerit agree as follows:

ARTICLE I

DEFINED TERMS

1.1 As used herein, the following items shall have the meanings respectively indicated:

(a) "Branch Lease" means that certain lease between PriMerit and Mariah Properties Ltd., dated November 21, 1989, with respect to PriMerit's premises at King's Inn Center, Sun City, Arizona;

(b) "Branch Lease Office" shall mean the premises (including fixtures and equipment) demised under the Branch Lease;

(c) "Branch Leasehold Estate" means the tenant's leasehold estate under the Branch Lease, including any and all rights, easements, tenements, hereditaments, and appurtenances benefiting or relating thereto;

(d) "Camelback Lease" means that certain Standard Industrial/Commercial Single-Tenant Lease--Net, dated May 2, 1991, as modified by that certain Amendment and Modification dated July 23, 1991, between Ruth Watanabe as

"Lessor" and PriMerit as "Lessee" having real property in the City of Phoenix as the premises demised thereunder;

(e) "Camelback Leasehold Estate" means the tenant's estate under the Camelback Lease, including any and all rights, easements, tenements, hereditaments, and appurtenances benefiting or relating thereto;

(f) "Camelback Office" means the premises demised under the Camelback Lease;

(g) "Camelback Sub-Leasehold Estate" means the subtenant's estate under the "Camelback Sublease", including any and all rights, easements, tenements, hereditaments, and appurtenances benefiting or relating thereto;

(h) "Camelback Sublease" means that certain sublease contemplated by Section 8.3(f) below between PriMerit as sublandlord and World as subtenant having as the premises demised thereunder the same premises as are demised to PriMerit under the Camelback Lease;

(i) "Closing" means the consummation of the conveyances contemplated by Section 4.1 below as provided in and subject to the terms of this Agreement;

(j) "Closing Date" means the date on which the Closing occurs;

(k) "Contract Rights" means all rights and interests of PriMerit in, to, or under all contracts, licenses, agreements, or other instruments relating to the Realty except to the extent that they are the subject of the Purchase Agreement and except the Branch Lease, the Camelback Lease and the PriMerit/Camelback Mortgage;

(l) "Environmental Laws" means, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section Section 99 9601 et seq., the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. Section Section 99 11001, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section Section 99 6901, et seq., the Toxic Substances Control Act, 15 U.S.C. Section Section 99 2601 et seq., the Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. Section Section 99 136, et seq., the Clean Air Act, 42 U.S.C. Section Section 99 7401, et seq., the Clean Water Act (Federal Water Pollution Control Act), 33 U.S.C. Section Section 99 1251 et seq., the Safe Drinking Water Act, 42 U.S.C. Section Section 99 300f et seq., the Occupational Safety and Health Act, 29 U.S.C. Section Section 99 641, et seq., and the Hazardous Substances Transportation Act, 49 U.S.C. Section Section 99 1801, et seq., as any of the above statutes have been or may be amended from time to time, all rules and regulations promulgated pursuant to any of the above statutes, and all other foreign, federal, state, or local laws, statutes, ordinances, rules and regulations governing Environmental Matters, as the same have been or may be amended from time to time, and, unless the context otherwise requires, Environmental Law includes any common law cause of action relating to Environmental Matters;

(m) "Environmental Matters" mean any matter arising out of, relating to, or resulting from, pollution, contamination, protection of the environment, human health or safety, health or safety of employees, sanitation, and any matters relating to emissions, discharges, disseminations, releases, or threatened releases of Hazardous Substances into the air (indoor and outdoor), surface water, groundwater, soil, land surface or subsurface, buildings, facilities, real or personal property or fixtures, or otherwise arising out of, relating to, or resulting from the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of Hazardous Substances;

(n) "Hazardous Substances" means any pollutants, contaminants, toxic or hazardous or extremely hazardous substances, materials, wastes, constituents, or chemicals (including, without limitation, petroleum or any by-products or fractions thereof, any form of natural gas, lead, Bevill Amendment materials, asbestos and asbestos-containing materials, polychlorinated biphenyls ("PCB's") and PCB-containing equipment, radon and other radioactive elements, infectious, carcinogenic, mutagenic, or etiologic agents, pesticides, defoliants, explosives, flammables, corrosives, and urea formaldehyde foam insulation) that are regulated by, or may now or in the future form the basis of liability under, any Environmental Laws. Hazardous Substances shall not include commercially available consumer products reasonably appropriate for use in or for routine maintenance and upkeep of a branch office of a financial institution provided that such products have been or are being used, stored, and disposed of in accordance with label instructions, and provided further that such products have not caused any Release;

(o) "Knowledge" with respect to PriMerit means knowledge that any officer of PriMerit with a rank of Vice President or higher or any manager of a Branch Office (as defined in the Purchase Agreement) has or should have, after reasonable inquiry;

(p) "Locations" shall mean, collectively, the Branch Lease Office, the Camelback Office, and the Properties, and the singular term "Location" shall mean any one of them;

(q) "Net Book Value" means, with respect to each Property, the book value of such Property on the Closing Date less applicable reserves, encumbrances, and other deductible items, as reflected in the financial statements of PriMerit computed in accordance with generally accepted accounting principals consistently applied;

(r) "Permitted Exceptions" shall mean the exceptions to title to the Realty as reflected in the Title Commitments or Surveys thereof which (i) do not render title to the Realty unmarketable, (ii) do not adversely affect, diminish, or limit World's ability to use any portion of the Realty for functions relating to the operation of a financial institution or related office use, and (iii) other than the instruments identified in Schedule G, do not adversely affect, diminish or limit World's ability to use any portion of the Realty for other uses permitted by applicable zoning laws;

(s) "PriMerit/Camelback Mortgage" means that certain Deed of Trust made by Watanabe in favor of PriMerit dated July 24, 1991, and recorded on July 31, 1991, in the Office of the Maricopa County, Arizona Recorder under recording number 91 355969;

(t) "PriMerit's Real Property Interests" shall mean, collectively, the Properties, the Branch Leasehold Estate, and the Camelback Leasehold Estate;

(u) "Properties" means, collectively, all the real property set forth and described in Schedule A hereto, together with any and all rights and easements benefiting the Properties or any of them and all improvements (including fixtures and equipment, except to the extent covered by the Purchase Agreement), appurtenances, tenements, and hereditaments to the Properties, and the singular term "Property" shall have the same meaning with respect to each of the four tracts separately numbered on Schedule A hereto and the rights and benefits related thereto;

(v) "Purchase Agreement" means that certain Agreement to Purchase Assets and Assume Liabilities between World and PriMerit of even date herewith;

(w) "Purchase Price" shall have the definition set forth in Section 3.1 hereof:

(x) "Realty" shall mean, collectively, the Properties, the Branch Leasehold Estate, and the Camelback Subleasehold Estate;

(y) "Release" shall include, without limitation, any releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into the environment (indoor or outdoor) (including the abandonment or discharging of barrels, containers, and other closed receptacles containing any Hazardous Substance) that may give rise to any liability or obligation under any Environmental Law;

(z) "Surveyor" means a surveying company duly licensed in the State of Arizona and mutually acceptable to World and PriMerit;

(aa) "Surveys" means, collectively, the surveys of each of the Locations, dated not earlier than the date of this Agreement with respect to the Initial Surveys (as defined in Section 5.2 below), and dated not earlier than thirty (30) days prior to the Closing Date with respect to the Updated Surveys, prepared by the Surveyor and meeting the Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys for Class A property with all additional Table 3 requirements satisfied;

(bb) "Title Commitments" means, collectively, the separate commitments issued by the Title Company and delivered to World in accordance with the terms and provisions of Section 5.1 hereof to issue the Title Policies with respect to the Realty naming World as proposed insured in the respective amounts for each Property, the Branch Leasehold Estate and the Camelback Sub-Leasehold Estate as set forth in Schedule

B, together with copies of all documents referenced in such. commitments as exceptions;

(cc) "Title Company" means First American Title Insurance Company of Arizona, or such other title company as shall be mutually acceptable to the parties hereto;

(dd) "Title Defect" shall have the meaning set forth in Section 5.1 hereof;

(ee) "Title Policies" means collectively, the separate Owner's Policies of Title Insurance (1990 ALTA Form) with Extended Coverage for Arizona with respect to each Property, the Branch Leasehold Estate, and the Camelback Subleasehold Estate issued by the Title Company in the respective amounts set forth in Schedule B hereto, as provided in Section 4.2 hereof; provided, however, that at Closing, an unconditional commitment from the Title Company to issue the Title Policies dated as of the Closing Date from which all requirements have been deleted and for which all premiums and associated expenses have been paid in full shall be deemed a Title Policy;

(ff) "Watanabe/Camelback Agreements" means, collectively, all agreements made by or between Watanabe and/or PriMerit in respect of or related to the Camelback Office, including but not limited to the Camelback Lease and the PriMerit/Camelback Mortgage; and

(gg) "Warranty Deed" shall mean a general warranty deed from PriMerit to World in the form set forth in Exhibit A hereto.

ARTICLE II

AGREEMENT OF PURCHASE AND ASSUMPTION

2.1 In consideration of the covenants and subject to the conditions of the respective parties, as hereinafter set forth, PriMerit agrees to sell and convey to World, and World agrees to purchase and take from PriMerit, all right title and interest of PriMerit in and to the Realty.

ARTICLE III

PURCHASE PRICE

3.1 The Purchase Price. The Purchase Price to be paid by World to PriMerit for the Property, the Branch Lease, the Camelback Sublease and all other assets, interests and rights to be conveyed to World by PriMerit pursuant to this Agreement shall be the total of the Net Book Values of each Property, less $335,063 for each Property (the "Deduction"), subject to adjustments as set forth in Article V and Section 10.3 hereof, provided however, that in the event that World and PriMerit do not enter into the Camelback Sublease, the Deduction shall not be applied, and the Purchase Price shall equal the total Net Book Values of the Properties subject to adjustments as set forth in Article V and Section 10.3 hereof.

3.2 Payment of Purchase Price. The Purchase Price shall be payable to PriMerit on the Closing Date by wire transfer of funds, immediately available, and may be included with or offset against any other amounts owing between World and PriMerit under Section 4.2 of the Purchase Agreement on the Closing Date.

ARTICLE IV

TITLE

4.1 Conveyance. Conveyance of (i) fee simple title to each Property shall be made by separate Warranty Deed, (ii) the Branch Leasehold Estate shall be made by written assignment as provided in Sections 10.2(a)(iii) and 10.2(b)(ii) below, and (iii) the Contract Rights shall be made by written assignment with full covenants, warranties, and indemnities. The Camelback Sub-Leasehold Estate shall be created by the execution and delivery of the Camelback Sublease as provided in Sections 10.2(a)(viii) and 10.2(b)(ii) hereof. Such conveyances and the Camelback Sublease shall be accompanied by duly certified resolutions of PriMerit's Board of Directors authorizing same.

4.2 Title Policies. At the Closing, PriMerit shall cause all the Title Policies to be issued to World. The costs thereof shall be borne by the parties as set forth hereinbelow. The Title Policies shall contain no exceptions other than (i) an exception for

taxes for the tax year of the Closing not then due and payable and (ii) the Permitted Exceptions. The Title Policies shall provide affirmative coverage over covenants, restrictions, easements, survey matters, and other matters as requested by World, shall affirmatively insure access from such publicly dedicated roads as designated by PriMerit, and shall insure the contiguity of each parcel comprising a single Location.

4.3 Excluded Contracts. Notwithstanding anything to the contrary herein, World is not obligated under this Agreement to assume or be bound by any contract, agreement, settlement, or decree relating to clean-up, abatement, or other action in connection with the remediation of any existing environmental liabilities or relating to the performance of any environmental audit or study with respect to the Realty.

ARTICLE V

DUE DILIGENCE

5.1 Title Review. PriMerit has heretofore delivered to Word legal descriptions of each Property, the Branch Lease Office, and the Camelback Office. On or before the thirtieth day following the date of this Agreement, PriMerit, at its expense, shall deliver to World the Title Commitments. In addition to other periods of time for which the time for Closing may be extended by World as provided in this Agreement, the Closing and all other deadlines for World's performance of its obligations or exercise of its rights under this Agreement shall be extended by one day for each day beyond such thirtieth day until such Title Commitments have been delivered. World shall notify PriMerit in writing within thirty (30) days after the date on which World has received all the Title Commitments and Initial Surveys of any matter appearing as an exception to title or shown on an Initial Survey which is not a Permitted Exception (a "Title Defect"); PriMerit shall use its best efforts to cure all Title Defects of which PriMerit is notified; provided, however, that PriMerit shall not be required under this Section 5.1 to expend an amount in excess of Fifty Thousand Dollars ($50,000) exclusive of attorneys' fees to cure Title Defects with respect to any single Property, the Branch Leasehold Estate, or the Camelback Sub-Leasehold Estate except for Title Defects which can be cured by payment of a liquidated sum (e.g., mechanics' liens, mortgages, security agreements, taxes due and payable as of the Closing Date), which shall be cured by PriMerit at or prior to Closing. If PriMerit shall fall to cure one or more Title Defects by the fifth day immediately preceding the scheduled Closing Date, World may elect, in its sole option, (i) to purchase the Property, assume the Branch Leasehold Estate, or acquire the Camelback Subleasehold Estate, as the case may be, affected by such Title Defect provided that World shall be entitled to a reduction in the Purchase Price to the extent such exception results in a reduction in the fair market value of the affected Realty, as agreed to by the parties, or (ii) to exclude such Property, Branch Lease Office, or Camelback Office with a reduction to the Purchase Price equal to the Net Book Value of such excluded Property.

5.2 Surveys. PriMerit shall deliver the Surveys of each Location to World within forty-five (45) days after the date hereof (the "Initial Surveys"). Not earlier than the

date thirty (30) days prior to the Closing Date, nor later than the date ten (10) days prior to the Closing Date, PriMerit, at PriMerit's sole cost and expense, shall cause the Surveys to be updated as required for issuance of the Title Policies (the "Updated Surveys") and delivered to World. Each of the Surveys to contain substantially the following certification in addition to the certification required by the Minimum Standards referred to in Section 1.1 (as) above:

> I, ____________________, a registered public Surveyor, do hereby certify unto Title Company, World Savings and Loan Association, a Federal Savings and Loan Association, PriMerit Bank FSB, and Fried, Frank, Harris, Shriver & Jacobson that the plat shown hereon represents the results of an on-the-ground survey made under my direction and supervision on the _____ day of _______________, 1993; that all corners are as shown hereon; that the survey is true and correct; that there are no discrepancies, conflicts or shortages in area or boundaries or any encroachments or any overlapping of improvements on any adjacent property, easements or rights-of-way evident on the ground except as shown hereon; that there are no easements for roadways, water courses, creeks, ponds, flood ditches, power lines, rights-of-way, setbacks, or building lines except as shown hereon; that all on-the-ground encumbrances to title referenced in that certain title commitment issued by _______________ under _______________ are accurately reflected hereon; that the locations and dimensions of all buildings, improvements, easements, and rights-of-way reflected hereon are accurately shown; that no such buildings or improvements violate any setback requirement; that the surveyed property has access to and from _______________, a dedicated roadway (or roadways), and there are no vacancies or gaps between the surveyed property and such dedicated roadway (or roadways); that the surveyed property is not located within the limits of any 100 year flood plain as shown on the most current National Flood Insurance Program Map covering the surveyed property, that the surveyed property is comprised of __ occupied improvements, and that the surveyed property is comprised of ___ acres.

In addition to and not in limitation of World's rights in respect of Title Defects, within thirty (30) days after its receipt of each Survey, World shall have the fight to approve or disapprove the state, condition, and other matters in respect of each Location as reflected in the respective Surveys thereof, including but not limited to boundaries, square footage and configuration.

5.3 World's Rights in the Event of Objections to Title or Survey. Exceptions to the title to any of the Properties, the Branch Leasehold Estate or the Camelback Sub-Leasehold Estate first raised subsequent to the Initial Surveys or the respective effective date of the Title Commitments shall automatically be deemed Title Defects and World shall have the rights and remedies provided in the last sentence of Section 5.1.

5.4 Inspection of the Properties. World, its agents and representatives, upon reasonable notice to PriMerit, shall have the right and license to enter upon and inspect the Properties, at any reasonable time after the date of this Agreement and in such manner as is reasonably acceptable to PriMerit. On or before the date thirty (30) days after

the execution of this Agreement, World shall give written notice to PriMerit (the "Notice of Condition of the Properties") of defects discovered in the structure, roof, facade, elevators, or mechanical, electrical, plumbing, HVAC, or fire protection systems which comprise or are a, part of the improvements on or at the Properties, which notice shall (i) identify each defect with respect to the particular Property affected, (ii) state World's reasonable estimate of the costs and expenses which will be required to correct such defects as an aggregate amount for each Property (an "Estimate for a Specific Property"), and (iii) state whether World elects to have PriMerit correct the defects in respect of each Property or to take a credit in the amount of the Estimate for a Specific Property in respect of such Property against that portion of the Purchase Price attributable to such Property; provided World shall not include in the Notice of Condition of the Properties defects in respect of any Property if the Estimate for a Specific Property in respect of such Property shall be less than Five Thousand Dollars ($5,000) and further provided World's election of correction or a credit as described in clause (iii) of this 5.4 shall be made in respect of all defects at a single Property. If World's Estimate for a Specific Property in respect of any Property exceeds One Hundred Thousand Dollars ($100,000), World and PriMerit may elect, in their respective sole and absolute discretions, by delivery of written notice to the other within ten (10) days following the Notice of Condition of the Properties, to exclude such Property from the Properties to be conveyed pursuant to this Agreement, in which event the Purchase Price shall be reduced by the Net Book Value of such excluded Property. With respect to all Properties which have not been excluded by either party as permitted by the immediately preceding sentence and in respect of which World had not elected to take a credit, PriMerit shall promptly commence the correction of specified defects and diligently and uninterruptedly prosecute the correction of such defects to completion prior to the Closing Date in good faith at PriMerit's sole cost and expense and in compliance with all applicable laws and regulations; provided, however, that if notwithstanding such prosecution of corrective work and through no fault of PriMerit, PriMerit has not completed such corrective work by the Closing Date, World shall close the acquisition of such Properties at Closing and the Purchase Price in respect of such Properties shall be reduced by the total of all amounts estimated by World as reasonably necessary to complete the corrective work at all Properties. At Closing, PriMerit shall assign all permits previously issued for such corrective work to World or its designee. If PriMerit shall default in its obligations to correct defects under this Section 5.4 with respect to any Property, World may exclude such Property from the Properties to be conveyed pursuant to this Agreement with the reduction in Purchase Price equal to the Net Book Value of such excluded Property.

5.5 Environmental Investigation and Report.

(a) Phase I Environmental Site Assessment Reports. Within five (5) business days of the date of this Agreement, PriMerit shall submit to World the name or names of four environmental consultants acceptable to PriMerit who are qualified to perform a Phase I Environmental Site Assessment for each of the Properties, the Branch Lease Office, or the Camelback Office. Within five (5) business days of such submittal, World shall indicate in writing whether it approves of any one or more of such environmental consultants. If World does not approve of any of such consultants, then World shall designate a consultant and PriMerit shall designate a consultant, within five (5)

business days after notice to PriMerit of such disapproval, who shall select a third consultant acceptable to both such consultants within ten (10) business days thereafter. Within thirty (30) days after the appointment of an environmental consultant, PriMerit, at its sole cost and expense, shall deliver to World a Phase I Environmental Site Assessment Report for each Property, the Branch Lease Office and the Camelback Office.

(b) Phase II Environmental Investigation. In the event that any Phase I Environmental Site Assessment Report recommends further investigation, such investigation shall be performed at PriMerit's sole cost and expense in a reasonably expeditious manner. PriMerit shall deliver to World a written report upon the completion of such investigation.

(c) Phase III Environmental Remediation. In the event that a Phase II Environmental Investigation of any of the Realty concludes that any monitoring, clean-up, removal, restoration, or other remedial work (collectively, "Remedial Work") is required under any applicable Environmental Law, then PriMerit shall have the opportunity to perform such Remedial Work at its sole cost and expense provided that such Remedial Work can be completed to World's satisfaction prior to the Closing Date. In the event such Remedial Work either cannot be completed to World's satisfaction prior to the Closing Date or such Remedial Work is not completed prior to the Closing Date, then (i) World may agree in writing that PriMerit may perform the Remedial Work, or (in) World may accept one or more Properties, the Branch Lease Office or the Camelback Office, as the case may be, with such reduction in the Purchase Price as the parties hereto shall agree to, or (iii) World may exclude one or more Properties, the Branch Lease Office or the Camelback Office, as the case may be, with a reduction to the Purchase Price in the event of the exclusion of one or more Properties equal to the Net Book Value of such excluded Properties.

5.6 Books and Records. World, its agents and representatives, upon reasonable notice to PriMerit, shall have the right and license to enter upon and inspect the Camelback Office, to review the PriMerit/Camelback Lease, the PriMerit/Camelback Mortgage, the Watanabe/Camelback Agreements and any and all loan instruments or agreements by or between Ruth Watanabe and PriMerit with respect to the Camelback Office for the purpose of determining the effect, if any, such documents will have upon World's proposed sublease of premises located in the Camelback Office, the terms of the agreement and consent described in Section 8.3(b)(vi) below, and the nondisturbance, recognition and attornment agreement described in Section 10.2(a)(viii) and 10.2(b)(ii) below.

5.7 Other Documents. Within ten (10) business days after the date of this Agreement, PriMerit shall deliver to World true and correct copies of the following:

(a) any and all real and personal property leases, certificates of occupancy, service and maintenance contracts, books and records, operating statements, invoices for utilities and repairs, tax records, and any other agreements relating to the operation of the Locations together with a schedule which indicates whether the consent of

a third party is required in order for each such lease, contract, or agreement to be assigned to World;

(b) any and all plans and specifications for the improvements constructed on the Locations and any as-built plans and surveys, which PriMerit has in its possession; and

(c) all notices received by PriMerit during the past three (3) years regarding the Locations with respect to the violation of any statutes, rules or regulations of government agencies, or violation of any easements, covenants, conditions, or restrictions affecting the Locations.

5.8 Right to Terminate. In the event that World shall have the right, pursuant to this Article V, to exclude any combination of two (2) or more of the Properties, the Branch Leasehold Estate, or the Camelback Sub-Leasehold Estate from this Agreement, World shall have the further right, at its sole discretion, (i) to accept and enforce this Agreement, excluding such Properties, the Branch Leasehold Estates or the Camelback Leasehold Estate as have been so excluded, or (ii) upon written notice to PriMerit, to terminate this Agreement and the Purchase Agreement.

5.9 PriMerit's Right to Terminate. In the event that World shall elect, pursuant to this Article V, to exclude any combination of two (2) or more of the Properties, the Branch Leasehold Estate, or the Camelback Sub-Leasehold Estate from this Agreement, PriMerit shall have the right, in its sole discretion and upon written notice to World, to terminate this Agreement and the Purchase Agreement; provided, however, that the parties hereto acknowledge that World's damages in the event of such termination of this Agreement by PriMerit will be difficult or impossible to calculate, and the parties therefore agree that (i) in the event of termination under this Section 5.9 where World has excluded any combination of two (2) or more of the Properties, the Branch Leasehold Estate, or the Camelback Sub-leasehold Estate pursuant to Section 5.1 or Section 5.2 hereof, PriMerit shall be liable to World in the amount of Two Hundred Fifty Thousand Dollars ($250,000) as liquidated damages and not as a penalty, and (ii) in the event of termination under this Section 5.9 where World has excluded one (1) Property, or the Branch Leasehold Estate, or the Camelback Sub-Leasehold Estate pursuant to Section 5.1 hereof, PriMerit shall be liable to World in the amount of One Hundred Twenty-Five Thousand Dollars ($125,000), as liquidated damages and not as a penalty.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF WORLD

6.1 World represents and warrants to PriMerit that as of the Closing Date, World shall have the full right, power, and authority to carry out its obligations hereunder. World further represents and warrants to PriMerit that all required corporate action necessary to authorize World to enter into this Agreement and to carry out its obligations

hereunder has been taken, or upon Closing will have been taken. World shall give PriMerit immediate notice of the occurrence of any event, or the receipt of any notice, which is likely to give rise to a breach by World of any of its representations or warranties set forth in this Article VI.

6.2 World represents and warrants to PriMerit that no brokers, agents, or finders have been consulted or hired by World with respect to this Agreement, the Purchase Agreement, or the transactions contemplated by either agreement.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES OF PRIMERIT

1.1 PriMerit represents and warrants to World that on the date hereof, PriMerit has good and marketable indefeasible title in fee simple to the Properties and a good and marketable tenant's estate under the Branch Lease, subject only to (a) the Permitted Exceptions, (b) the "Branch Fee Mortgages" (as deemed in Section 8.3(b)(iv), with respect to the Branch Leasehold Estate only), (c) other exceptions to title which may be removed by payment of a liquidated sum, and (d) zoning, set back, building and other similar restrictions which are not violated in any material respect and which do not and will not, in World's opinion, adversely affect, limit or diminish the use of any Property or the Branch Lease Office for the operation of a financial institution or other business providing financial services or related office uses. PriMerit shall, as of the Closing, have good and marketable indefeasible fee simple title to the Properties and a good and marketable indefeasible tenant's estate under the Branch Lease free and clear of all covenants, restrictions, easements, burdens, liens and other matters subject only to matters described in clauses (a), (b) and (d) in the immediately preceding sentence.

7.2 PriMerit represents and warrants to World that as of the date of this Agreement and at all times hereafter until and including Closing:

(a) The legal descriptions set forth in Schedule A describe all real property owned by PriMerit or used by PriMerit in connection with the branch banking operations of PriMerit at the respective branches identified therein and for ancillary or auxiliary purposes related to such branch banking operations. The demised premises under the Branch Lease includes all the real property used by PriMerit in connection with the branch banking operations of PriMerit at its Sun City Grand Branch and for ancillary or auxiliary purposes related to such branch banking operations. Schedule C lists each present lessor and lessee under the Branch Lease. The respective conditions of each Property and the Branch Lease Office are such that they will not have an adverse effect on the operations of a retail banking business thereupon. PriMerit is in exclusive possession of the Properties and the Branch Lease Office, and there are no leases, licenses, or other agreements granting an exclusive or non-exclusive right to use or otherwise affecting any of them, in whole or in part, except the Branch Lease and those certain leases identified in Schedule D hereto (collectively, the "PIS Leases"). The Properties and the Branch Lease Office have been

classified by the respective zoning authorities in the respective zoning classifications set forth in Schedule E;

(b) PriMerit has received no notice of, and to PriMerit's Knowledge there has not occurred, any condemnation or threatened condemnation proceedings affecting any Property or the Branch Lease Office, or any part thereof;

(c) There is no litigation, nor to PriMerit's Knowledge is any litigation threatened, affecting PriMerit, the Locations or PriMerit's Real Property Interests which would in any way constitute or give rise to a lien, claim, or obligation of any kind against any of the foregoing, and PriMerit has received no notice and has no Knowledge that any such litigation is threatened or that facts exist which may give rise to such litigation;

(d) No person, firm, or entity has any right to acquire an interest in PriMerit's Real Property Interests, or any part thereof;

(e) No claims for unpaid bills for work performed on or materials delivered to any of the Locations have been tendered, asserted, or threatened, and no work has been performed with respect to any of PriMerit's Real Property Interests for which payment in full has not been made;

(f) PriMerit shall have, as of Closing, full right, power, and authority to timely perform its obligations hereunder. All required corporate action necessary to authorize PriMerit to enter into this Agreement and to perform its obligations hereunder has been taken;

(g) To PriMerit's Knowledge, all the Locations are free and clear of any and all Hazardous Substances and, except as set forth in the Environmental Reports, there has not occurred any Release of a Hazardous Substance on any of the Locations, or off the Locations as a result of any construction on or operation and use of any of the Locations. As of the Closing Date all the Locations shall be free and clear of any and all Hazardous Substances;

(h) To PriMerit's Knowledge, the Locations have at all times been operated, and are, in full compliance with all Environmental Laws, orders, decrees, directives, permits, licenses, and judgments relating to Environmental Matters;

(i) To PriMerit's Knowledge, no underground or above-ground storage tanks, incinerators, or surface impoundments exist or have ever existed at, on, about, adjacent to, under, or within any of the Locations nor have ever been removed from any such Locations;

(j) PriMerit has not received: (i) any communication, with respect to any of the Locations, indicating that it is or may be a potentially responsible person or otherwise liable in connection with any waste disposal site allegedly containing any Hazardous Substances or other place used by any of the Locations for the disposal of any Hazardous Substances or (ii) notice of any failure of PriMerit to comply in any material

respect with any Environmental Law or the requirements of any Environmental Permit applicable to any of the Locations;

(k) To PriMerit's Knowledge, there has been no Release or other dissemination at any time of any Hazardous Substances at, on, about, adjacent to, under, or within any of the Locations;

(l) Neither this Agreement nor the conveyance of the Properties and the Branch Leasehold Estate nor the creation of the Camelback Sub-Leasehold Estate will cause to be imposed on World any liability to withhold any amount pursuant to Section 1445 of the Internal Revenue Code (or the implementing regulations);

(m) PriMerit has received no communication of an actual or potential change in any applicable laws, ordinances, or restrictions (whether public or private), or any judicial or administrative action by adjacent landowners of natural or artificial conditions upon the Property or Branch Lease Office which would prevent, limit, impede, or render more costly the use of the Properties or Branch Lease Office as branch offices for a savings and loan institution;

(n) All utilities, including but not limited to water, gas, sewer, electricity, and telephone service, are available to each of the Locations at their respective boundary lines in sufficient quantifies to conduct normal banking and office operations as PriMerit has heretofore conducted them;

(o) PriMerit has complied with all applicable laws, ordinances, regulations, statutes, rules, and restrictions the failure to comply with which may materially affect the Properties or the Branch Lease Office, and the performance of this Agreement will not result in any breach of, constitute any default under, or result in the imposition of, any lien or encumbrance upon, the Locations, the Realty, or any of them, or upon any agreement or other instrument to which PriMerit is a party, or by which PriMerit, the Locations, the Realty or any of them, might be bound;

(p) Each of the Properties and the Branch Lease Office is covered by insurance maintained by PriMerit against fire, extended coverage perils, and such other perils as are customarily insured against, in amounts at least equal to the replacement costs of the improvements, furniture, fixtures, and equipment thereon. All amounts due and payable under such insurance policies are fully paid, and all such insurance policies are, and shall remain, in full force and effect until a date occurring not earlier than the Closing Date;

(q) The permits, licenses, and governmental authorizations listed on Schedule F hereto are and shall remain through Closing in full force and effect, and constitute all the permits, licenses, and governmental authorizations necessary for the conduct of PriMerit's business on the Realty;

(r) The Branch Lease is in full force and effect and contains the entire agreement between the parties thereto with respect to the Branch Lease Office. At

Closing PriMerit shall have fully satisfied all of its obligations under the Branch Lease which arise prior to the Closing. PriMerit is not (and to PriMerit's Knowledge no other party is) in breach or violation of or default under the Branch Lease, and there is no valid basis for a claim of breach or violation of or default under, and no event has occurred that constitutes or, with the lapse of time or the giving of notice or both, would constitute, a breach, violation, or default by PriMerit (and to PriMerit's Knowledge any other party) under the Branch Lease. PriMerit as lessee will, at Closing, have the right to quiet enjoyment under the Branch Lease;

(s) No brokers, agents, or finders have been consulted or hired by PriMerit with respect to this Agreement, the Purchase Agreement, the transactions contemplated by either agreement;

(t) Subject to PriMerit's covenants (i) to remedy physical defects pursuant to Section 5.4 above, (ii) to restore the walls pursuant to Section 8.4 below, and (iii) to restore the premises upon removal of Fixed Assets pursuant to Section 8.7 of the Purchase Agreement, PriMerit disclaims any and all warranties, express or implied, with respect to the physical condition of the buildings and improvements situated at the Locations; and

(u) PriMerit has good and marketable title to the tenant's leasehold estate under the Camelback Lease, free and clear of all covenants, restrictions, easements, burdens, and liens and subject only to: (i) the Permitted Exceptions, (ii) zoning, set back, building and other similar restrictions which are not violated in any material respect and which do not and will not, in World's opinion, have an adverse effect on use of the Camelback Office for retail banking purposes, and (iii) the PriMerit/Camelback Mortgage. The premises demised to PriMerit under the Camelback Lease are all the real property and improvements used by PriMerit for or in connection with the operation of its Camelback branch location. The Camelback Office has been classified by the applicable zoning authority in the zoning classification set forth in Schedule E with respect thereto. The property tax parcel numbers set forth in Schedule E are the only tax parcel numbers assigned to the premises demised under the Camelback Lease and said numbers include no other property. PriMerit is in exclusive possession of the Camelback Office and the Camelback Office is not subject to any sublease, license, or other occupancy agreement. The Camelback Lease is in good standing and full force and effect and the Camelback Lease together with the PriMerit/Camelback Mortgage and the note secured thereby collectively contain the entire agreement between the parties thereto with respect to the subject matter thereof. Neither party to the Camelback Lease is in default thereunder and no event has occurred nor action been taken which, with the giving of notice, the passage of time, or both, would constitute a default by either party thereunder. There are no condemnation or eminent domain actions pending or threatened which affect the Camelback Office. PriMerit has no existing defenses to or offsets against its obligations under the Camelback Lease and to PriMerit's Knowledge, the lessor under the Camelback Lease has no existing defenses to or offsets against her obligations thereunder.

ARTICLE VIII

EXPRESS COVENANTS OF PRIMERIT

8.1 Between the date hereof and the Closing, PriMerit expressly covenants and agrees that:

(a) PriMerit shall use the Locations only in the regular course of PriMerit's business, shall not commit waste thereof or thereon and shall not make or consent to any alterations at any Location;

(b) PriMerit shall give to World immediate written notice of the commencement of or receipt of notice of any litigation or threatened litigation affecting PriMerit, the Locations, the Camelback Leasehold Estate, or the Branch Leasehold Estate which might in any way constitute or have the effect of presently or in the future creating a lien, claim, or obligation of any kind against the Properties, the Branch Leasehold Estate, the Camelback Leasehold Estate, or any of them;

(c) PriMerit shall give World immediate notice upon the occurrence of any event, or receipt of any notice, which might give rise to a breach by PriMerit of any of its representations or warranties set forth in Article VII above; and

(d) PriMerit shall take all steps necessary to cause PriMerit Investor Services to (i) terminate the PIS Leases, with regard to each of the Locations, and (ii) immediately discontinue the business of PriMerit Investor Services at each of the Locations.

8.2 Use of Proceeds. In the event of any loss or damage to any of the Locations between the date hereof and Closing, (i) no insurance claim for any such loss or damage shall be settled by PriMerit without the written consent of World, and the proceeds of any such insurance claim shall be applied only as World and PriMerit shall, in good faith, agree, and any and all insurance proceeds and rights to proceeds remaining at Closing shall be transferred and assigned to World at Closing (or there shall be a corresponding reduction in the Purchase Price); and (ii) World shall have the right to accept the affected Realty with the Purchase Price reduced by an amount sufficient to compensate World for the reduction in the value thereof caused by such insured loss or damage, as determined by an engineer or other appropriately licensed professional or contractor selected by World; provided, however, that each party agrees to use its good faith efforts to return any Location which has suffered loss or damage to an operable condition as soon as practicable. World shall be entitled to exclude such damaged Location with a reduction to the Purchase Price equal to the Net Book Value of such excluded Property.

8.3 Leases. Prior to the scheduled Closing Date and not later than the respective deadlines indicated below:

(a) PriMerit shall not (i) amend, alter, renew, terminate, or exercise any option to extend the term of the Branch Lease or the Camelback Lease or (ii) sublease

or lease any space at any Property, the Branch Lease Office or the Camelback Office, without World's prior written consent in each case, which may be granted or withheld by World in its sole and absolute discretion;

(b) PriMerit shall promptly notify the landlord under the Branch Lease Office of the anticipated assignment of the Branch Lease, and shall request that such party cooperate with PriMerit and World with respect to the execution of any necessary consents, the replacement of signage, and all other matters connected with such assignment. PriMerit shall within five days following the date of this Agreement request, and shall use its best efforts to deliver to World, on or before the respective dates specified for delivery below, the following:

(i) not later than twenty (20) days prior to the scheduled Closing Date, a Lessor's Estoppel Certificate with respect to the Branch Lease from the landlord thereunder, executed not more than thirty (30) days prior to the Closing Date, in the form attached hereto as Exhibit B and acceptable to World;

(ii) not later than ten (10) days prior to the scheduled Closing Date an executed and effective Agreement and Consent from the landlord substantially in the form attached hereto as Exhibit C with respect to the assignment of the Branch Lease;

(iii) not later than ten (10) days prior to the scheduled Closing Date a fully executed and duly acknowledged recordable memorandum or short form of the Branch Lease made by PriMerit and the landlord thereunder in the form required by Arizona Statutes and which satisfies all requirements with respect thereto for the issuance of the Title Policy for the Branch Leasehold Estate;

(iv) not later than ten (10) days prior to the scheduled Closing Date, a nondisturbance certificate, which shall be substantially in the form attached hereto as Exhibit D and shall be dated not earlier than thirty (30) days prior to the Closing Date, from each and every holder of a mortgage on fee title to the Branch Lease Office (collectively, the "Branch Fee Mortgages");

(v) not later than twenty (20) days prior to the scheduled Closing Date written agreements acceptable to World made by PriMerit and the tenants under the PIS Leases terminating the PIS Leases effective upon or prior to the Closing Date; and

(vi) not later than the Closing Date, a nondisturbance, recognition and attornment agreement and consent to the Camelback Sublease executed by Ruth Watanabe (individually and as trustee of the Ruth K. Watanabe Trust) as landlord under the Camelback Lease and under

such other documents in respect of the Watanabe/Camelback Agreements as are required by World, in a form acceptable to World. If such agreement and consent shall be delivered, World shall reimburse PriMerit at Closing for fifty percent (50%) of amounts paid by PriMerit to Ruth Watanabe in consideration for such agreement and consent up to a maximum reimbursement of Fifty Thousand Dollars ($50,000). PriMerit shall consult with World before taking any action in respect of such agreement and consent;

(c) PriMerit shall, in a timely manner that will allow PriMerit to deliver the commitments described in 5.1, obtain and cause recordation of any and all memoranda of leases and/or other documents required by the Title Company to issue the Title Policies; and

(d) Not later than ten (10) days prior to Closing, PriMerit and World shall have agreed upon the form of the Camelback Sublease, (i) having as the base rent payable thereunder the "Base Rent" payable under Section 1.5 of the Camelback Lease (which base rent shall be payable at World's election directly to the lessor under the Camelback Lease), (ii) obligating World to pay amounts payable by the tenant under Article 10 of the Camelback Lease, (iii) making the expenses and costs of the day-to-day operation, maintenance, and repair of the Camelback Branch Office the responsibility of World, and (iv) containing other terms and conditions mutually acceptable to World and PriMerit which are commercially reasonable in a sublease between unrelated parties for free-standing office buildings in the metropolitan Phoenix, Arizona area which terms do not take into account the extent of PriMerit's obligations as the tenant under the Camelback Lease.

8.4 Signs. PriMerit shall remove any and all signs attached to buildings at the Locations, and shall restore the walls to which such signs are attached to their condition prior to attachment of such sign, wear and tear excepted.

ARTICLE IX

CONDITIONS PRECEDENT TO WORLD'S PERFORMANCE

9.1 Performance of PriMerit's Obligations. World's obligations hereunder shall be conditioned upon the timely performance by PriMerit of each of the following items:

(a) Title Commitments. PriMerit shall have delivered to World the Title Commitments, in the form specified in Section 4.2 hereof and within the time period specified in Section 5.1 hereof, together with legible copies of all documents that affect title to the Realty;

(b) Surveys. PriMerit shall have delivered to World the Initial and Updated Surveys, in the form and within the time periods specified in Section 5.2 hereof;

(c) Title Curative. PriMerit shall have cured, to World's satisfaction (or World shall have otherwise waived) within the time periods specified in Sections 5.1 and 5.2 hereof, all of the Title Defects;

(d) Title Insurance. PriMerit shall have satisfied all requirements for the issuance of the Title Policies, including but not limited to payment of all premiums for standard title coverage and other charges in connection therewith;

(e) Warranties and Covenants. Each of PriMerit's warranties and representations set forth in Article VII hereof and in the Purchase Agreement are and shall be true as of the date of execution of this Agreement and as of Closing, and as of Closing PriMerit shall have performed all its covenants and delivered all the documents required by this Agreement;

(f) Purchase Agreement. Closing under the Purchase Agreement shall take place concurrently with Closing under this Agreement; and

(g) Closing Deliveries. PriMerit shall have delivered at or prior to Closing each of the documents or other items required under Sections 8.3, 9.1 and 10.2 hereof, and shall have performed all its other obligations under Article X hereof.

ARTICLE X

CLOSING

10.1 Date and Place of Closing. The Closing hereunder shall take place in the offices of World at 1901 Harrison Street, Oakland, California on July 31, 1993, provided that such date may be extended to a date on or before December 31, 1993 and provided, further, that such Closing Date shall be concurrent with the Closing Date set forth in the Purchase Agreement.

10.2 Items to be Delivered at the Closing.

(a) PriMerit. At the Closing, PriMerit shall deliver to World or its assignees:

(i) the Title Policies, in the form specified in Section 4.2 hereof (the costs of which shall be borne by the parties as provided in Section 10.5 hereof);

(ii) separate Warranty Deeds for the Properties, duly executed and acknowledged by PriMerit, conveying title to each

of the Properties to World subject only to the Permitted Exceptions;

(iii) an executed and duly acknowledged Assignment and Assumption Agreement with respect to the Branch Lease in the form attached hereto as Exhibit E, together with a recordable memorandum or short form thereof in the form required by Arizona statutes and which satisfies all requirements with respect thereto for the issuance of the Title Policy for the Branch Leasehold Estate and which is otherwise reasonably acceptable to PriMerit and World;

(iv) so many copies as are reasonably required, of an affidavit executed by PriMerit satisfactory to evidence that World will not be required to withhold any tax and that no withholding liability exists as of the Closing under Section 1445 of the Internal Revenue Code (and the implementing regulations), which affidavit shall state that PriMerit is not a foreign corporation, foreign partnership, foreign trust, or foreign estate (as those terms are defined in the Internal Revenue Code and income tax regulations), PriMerit's employer identification number, and PriMerit's office address, plus such other statements as World shall reasonably request;

(v) so many copies as are reasonably required of certificates from the Secretaries or Assistant Secretaries of PriMerit as to the incumbency and signatures of officers;

(vi) so many copies as are reasonably required of all affidavits, certificates, and other statements necessary for the issuance of the Title Policies at Closing;

(vii) so many copies as are reasonably required of any and all additional documents and instruments which World may reasonably determine are necessary or desirable for the proper consummation of this transaction;

(viii) the Camelback Sublease and a nondisturbance, recognition and attornment Agreement made between PriMerit as mortgagee or sole beneficiary under the PriMerit/Camelback Mortgage and World, in form acceptable to World and PriMerit; and

(ix) the nondisturbance, recognition and attornment agreement and consent described in Section 8.3(b)(vi); provided, however, that if PriMerit's failure to deliver such

agreement and consent is not a result of PriMerit's breach of its obligations under this Agreement, World's rights in respect of the nondelivery of such agreement and consent shall be as set forth in Section 11.3 below, and provided that if PriMerit's failure to deliver such consent and agreement is a result of PriMerit's breach of its obligations under this Agreement, then World shall have all rights and remedies in respect of such breach.

(b) World. At the Closing, World shall deliver to PriMerit each of the following items:

(i) the total Purchase Price;

(ii) the Camelback Sublease, the nondisturbance, recognition and attornment agreement described in 10.2(a)(viii) above, the Assignment and Assumption Agreement with respect to the Branch Lease described in 10.2(a)(iii) and the memorandum or short form thereof therein described;

(iii) so many copies as are reasonably required of certificates from the Secretaries or Assistant Secretaries of World as to the incumbency and signatures of officers; and

(iv) so many copies as are reasonably required of any and all additional documents and instruments which PriMerit may reasonably determine are necessary or desirable for the proper consummation of this transaction.

10.3 Adjustments. At the Closing, ad valorera taxes relating to the Properties and the Camelback Office and any personal property taxes relating to or including ad valorera taxes for the Locations for the calendar year in which the Closing Date occurs shall be prorated between PriMerit and World as of the Closing Date, based upon the best available estimates of the amount of taxes that will be due and payable on each of the Properties during the calendar year in which the Closing Date occurs, and PriMerit shall pay to World in cash at the Closing, or credit against the Purchase Price, PriMerit's pro-rata portion of such taxes. All rental amounts payable under the Branch Lease shall be prorated as of Closing and all adjustments under the Branch lease shall be made at Closing. Within thirty (30) days after the date the total aggregate amount of taxes on the Properties for such year is known, PriMerit and World shall readjust the amount of taxes to be paid by each party and any excess paid by PriMerit shall be refunded by World, and any shortage in the amount paid by PriMerit shall be paid by PriMerit to World.

10.4 Possession and Closing. Possession of each of the Properties, the Branch Lease Office and the Camelback Office shall be delivered to World by PriMerit at Closing.

10.5 Costs of Closing.

(a) PriMerit agrees to pay:

(i) All state and local taxes and deed-transfer charges arising out of the conveyances contemplated hereby and in respect of the Camelback Sublease;

(ii) All charges incurred by PriMerit for the procurement, preparation, and recording of any releases, waivers, or other instruments required to clear PriMerit's title to the Properties;

(iii) The premium for issuance of standard coverage under the Title Policies required under Section 4.2 and the cost, if any, of the Title Commitments;

(iv) One-half of the cost of the Surveys;

(v) Any and all brokers', agents', finders', and attorneys' fees it may incur in connection with this Agreement, except as provided in (b) below.

(b) World agrees to pay any and all brokers', agents', and finders' fees payable to third parties claiming to have dealt solely through World with respect to this Agreement, one-half of the cost of the Surveys, its own attorney's fees and the premium in excess of the premium for standard title coverage payable for the issuance of extended title coverage under the Title Policies. World shall have the benefit of any developer discount applicable to the Title Policies.

(c) Any escrow and recording fees charged by the Title Company pursuant hereto, and all other costs, fees, penalties, and other expenses incurred at the Closing shall

ARTICLE XI

DEFAULTS AND REMEDIES

11.1 PriMerit's Defaults; World's Remedies.

(a) PriMerit's Defaults. PriMerit shall be in default hereunder if PriMerit shall fail timely and fully to meet, comply with, or perform any material warranty, representation, covenant, agreement, or obligation on its part required under this Agreement;

(b) World's Remedies. In the event PriMerit is in default

hereunder, World, at World's option, (i) shall be entitled to terminate this Agreement and the Purchase Agreement by delivery of written notice to PriMerit, (ii) subject to PriMerit's right to terminate under Section 5.9, shall be entitled to exclude the Locations in connection with which defaults shall arise and reduce the Purchase Price, if one or more Properties is excluded, by the Net Book Values of such excluded Properties, or (iii) may pursue any and all of World's remedies at law or in equity, including the enforcement by specific performance of this Agreement; and

(c) Specific Performance. PriMerit acknowledges that World will be irreparably harmed and will have no adequate remedy at law if PriMerit fails to perform any of its material obligations under this Agreement. It is accordingly agreed that, in addition to any other remedies which may be available to it, World shall have the right to obtain specific performance of PriMerit's covenants and other agreements contained in the Agreement and such other equitable relief as the court shall deem appropriate.

11.2 World's Defaults: PriMerit's Remedies.

(a) World's Default. World shall be in default hereunder if World shall fail to meet, comply with or perform any material covenant, agreement, or obligation on its part required under this agreement; and

(b) PriMerit's Remedy. In the event World is in default hereunder, PriMerit may, as its sole and exclusive remedy, terminate this Agreement and recover any amounts reasonably paid to World or any third party pursuant to this agreement. PriMerit hereby irrevocably waives and releases any and all claims for, rights to, and causes of action for specific performance of this Agreement and each of the transactions contemplated hereby.

11.3 In the event that, for any reason, the parties hereto fail to enter into the mutually acceptable sublease in respect of the Camelback Office described in Section 8.3(d) above as required by Sections 10.2(a)(viii) and 10.2(b)(ii) or the nondisturbance, recognition, and attornment agreement and consent to the Camelback Sublease between PriMerit and World is not made and delivered as required by Section 10.2(a)(viii) or if the nondisturbance, recognition, attornment and consent agreement required by Section 8.3(b)(vi) above is not timely delivered and such failure of timely delivery of such agreement and consent is not a result of PriMerit's breach of its obligations under this agreement, World in any of such events, at Worlld's option, may elect to exclude the Camelback Office from the transaction which is the subject of this Agreement and upon such exclusion the parties shall be relieved from all further obligations under this agreement in respect of the Camelback Office and the Camelback Lease.

11.4 Pursuit of Remedies. In the event World elects to pursue one of the remedies under Section 11.1 hereof and at any time during pursuit of performance thereunder elects not to seek such remedy, World shall be entitled to pursue its other remedies under Section 11.1.

ARTICLE XII

ENVIRONMENTAL INDEMNITY

12.1 Release of World. PriMerit, on behalf of itself and its successors and assigns does hereby release World and the directors, trustees, beneficiaries, officers, shareholders, employees and agents of World, and any successor or assign of each and every one them ("World's Related Parties"), and waives any rights or claims under any Environmental Laws against World and World's Related Parties for or resulting from the presence or Release at, on, about, adjacent to, under, within, or from any of the Locations or any waste disposal site used by any of the Locations, of any Hazardous Substances on or prior to the Closing Date or remaining at, on, about, adjacent to, under, within, or from any of the Locations after the Closing Date, provided that the foregoing release and waiver shall not apply to the extent that World or World's Related Parties cause or contribute to the Release of such Hazardous Substances.

12.2 PriMerit's Environmental Indemnification. PriMerit and its successors and assigns shall indemnify, defend, and hold World and World's Related Parties harmless from and against all claims, liabilities, obligations, damages (including any damages to third parties), fines, penalties, judgments, costs, reasonable attorney's and consultant's fees resulting from, arising under, or imposed by any Environmental Law by reason of the Release of a Hazardous Substance at, on, about, adjacent to, under, within, or from any of the Locations or any waste disposal site used by any of the Locations which (i) occurs before the Closing Date or, (ii) occurs at any time to the extent attributable to the presence or Release of any Hazardous Substance prior to the Closing Date, ("World's Environmental Claims"), subject to the following conditions and limitations:

(a) The following shall be excluded from PriMerit's Environmental Indemnification and World's Environmental Claim: (i) special or consequential damages to World, including, without limitation, loss of revenues, income, profits, punitive damages, and the like, (ii) environmental conditions resulting solely from the acts of Word or World's Related Parties including, without limitation, the Release of a Hazardous Substance at, on, about, adjacent to, under, within, or from any of the Locations after the Closing Date; and

(b) An express condition precedent to World's rights under PriMerit's Environmental Indemnification shall be that World must present to PriMerit, within four (4) years after the Closing Date, a written assertion of World's Environmental Claim.

12.3 World's Environmental Indemnification. World, its successors and assigns, shall indemnify, defend, and hold PriMerit and PriMerit's directors, trustees, beneficiaries, officers, shareholders, employees, and agents, and any successor and assign of each and every one ("PriMerit's Related Parties") harmless after the Closing Date from and against all claims, liabilities, obligations, damages (including any damages to third parties), fines, penalties, judgments, costs, reasonable attorney's and consultant's fees arising under, or imposed by, any Environmental Law by reason of the Release of a Hazardous Substance,

at, on, about, adjacent to, under, within, or from any of the Locations solely to the extent attributable to the conduct of World or World's Related Parties which occurs after the Closing Date ("PriMerit's Environmental Claim"), subject to the following conditions and limitations:

(a) The following shall be excluded from World's Environmental Indemnification and PriMerit's Environmental Claim: (i) special or consequential damages to PriMerit including, without limitation, loss of revenues, income, profits, and the like, or punitive damages, (ii) environmental conditions resulting from the acts of PriMerit or PriMerit's Related Parties including, without limitation, the Release of a Hazardous Substance at, on, about, adjacent to, under, within, or from any of the Locations either before or after the Closing Date; and

(b) An express condition precedent to PriMerit's rights under World's Environmental Indemnification shall be that PriMerit must present to World, within four (4) years after the Closing Date, a written assertion of PriMerit's Environmental Claim.

ARTICLE III

MISCELLANEOUS

13.1 Captions. The captions, headings and arrangements used in this Agreement are for convenience only and do not in any way affect, limit, amplify, or modify the terms and provisions hereof.

13.2 Number and Gender of Words. Use of the singular number herein shall include, where appropriate, the plural, and words of any gender shall include, where appropriate, the other gender.

13.3 Notices. Notices, demands, requests, and other communications required or permitted hereunder shah be deemed to be received (i) immediately upon receipt or refusal by hand by the party to whom such notice is addressed, (ii) on the date of delivery by a reputable parcel delivery service to the addressee as set forth below and evidenced by a receipt therefor, (iii) three (3) business days after mailing via U.S. Mail, certified, with a return receipt requested, and addressed as set forth below or in such manner as the party to whom such notice is sent has last advised the other party hereto.

If to PriMerit: PriMerit Bank, FSB
3300 West Sahara Avenue
Las Vegas, Nevada
Attention: Dan J. Cheever, President

If to World: J. L. Helvey
Group Senior Vice President
World Savings and Loan Association
1901 Harrison Street
Oakland, California 94612

With a copy to: Fried, Frank, Harris, Shriver & Jacobson
1001 Pennsylvania Avenue, N.W.
Suite 800
Washington, D.C. 20004-2505
Attention: David L. Ansell, Esq.

13.4 Governing Law. This Agreement, together with the Purchase Agreement and the Consulting Agreement and Non-Competition Agreement among the parties hereto and Southwest Gas, a California corporation of even date herewith (the "Ancillary Agreements") govern the parties rights and liabilities in a single, integrated transaction. As with the Purchase Agreement, the validity, performance, and enforcement of this Agreement and agreements contemplated hereby shall be governed by the laws of the State of California, without giving effect to the principles of conflicts of law thereof, except that (i) with respect to matters regarding title to real property, the laws of the State of Arizona shall govern, without giving effect to the principles of conflicts of law thereof, and (ii) with respect to matters regarding the transfer of right, title to, and interest in any contract, agreement, instrument, or governmental authorization, the laws governing such contract, agreement, instrument, or governmental authorization shall govern. Each of the parties hereto hereby irrevocably and unconditionally consents to the exclusive jurisdiction of the courts of the State of California located in the County of Alameda and of the United States of America in and for the Northern District of California, which courts shall have exclusive jurisdiction over the interpretation and enforcement of this Agreement, the Purchase Agreement, and the Ancillary Agreements, and the parties hereto agree that venue for all action for any actions, suits, or proceedings arising out of or relating to this Agreement, the Purchase Agreement, the Ancillary Agreements and the transactions contemplated by each of them shall be proper in any such court.

13.5 Entirety and Amendments. This Agreement and the documents referred to herein embody the entire agreement between the parties with respect to the subject matter hereof and supersede all prior agreements and understandings between World and PriMerit, if any, relating to the Realty and the Locations and the Camelback Lease and may be amended or supplemented only by an instrument in writing executed by the party against whom enforcement is sought.

13.6 Invalid Provisions. If any provision of this Agreement is held to be void or unenforceable by a court of competent jurisdiction, such provision shall be severable and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the void or unenforceable provision or by its severance. Furthermore, in lieu of such void or unenforceable provision, there shall be automatically substituted a provision as similar in effect to such provision as may be legal, valid, and enforceable.

13.7 Multiple Counterparts. This Agreement may be executed in identical counterparts, each of which shall be deemed an original for all purposes and all such counterparts shall, collectively, constitute one agreement.

13.8 Parties Bound. This Agreement shall be binding upon and inure to the benefit of PriMerit and World and their respective heirs, representatives, successors, and assigns.

13.9 Risk of Loss. Risk of loss or damage by fire or other casualty to the Properties or any part thereof prior to Closing shall be the risk of PriMerit. Improvements and personal property described herein shall be maintained by PriMerit in the present condition until Closing, wear from normal and reasonable use and deterioration excepted.

13.10 Further Acts. In addition to the acts and deeds recited herein and contemplated to be performed, executed, or delivered by PriMerit to World, PriMerit and World each agree to perform, execute, and deliver or cause to be performed, executed, and delivered at the Closing or after the Closing any and all such further acts, deeds, and assurances as the other party may reasonably request to consummate the transactions contemplated hereby and to assure World's title to the Realty.

13.11 Time of the Essence. It is expressly agreed by the parties hereto that time is of the essence with respect to this Agreement. If the final day of any periods or any date of performance under this Agreement falls on a Saturday, Sunday or legal holiday, then the final day of said period or the date of performance shall be extended to the next business day thereafter.

13.12 Survival. All covenants and agreements contained herein and intended to be performed subsequent to any Closing hereunder shall survive the execution and delivery of the Deed and other closing documents required hereby and shall specifically be deemed not to be merged into or waived by any instrument of Closing, but shall expressly survive and be binding upon PriMerit and World. All indemnities by PriMerit and any liability of PriMerit for misrepresentation or breach of warranty contained herein shall survive the execution and delivery of the Warranty Deed(s) and other closing documents required hereby, shall specifically be deemed not to be merged into or waived by any instrument of Closing, and such liability shall expressly survive and be binding upon PriMerit.

EXECUTED as hereinafter set forth.

PriMerit:

PRIMERIT BANK FSB

August 12, 1993
- ----------------------------------
Date Executed by PriMerit

By:_______________________________________

Name:_____________________________________

Title:____________________________________

World:

WORLD SAVINGS AND LOAN ASSOCIATION, a
Federal Savings and Loan Association

August 12, 1993
- ---------------------------------
Date Executed By World

By:_______________________________________

Name:_____________________________________

Title:____________________________________

Schedule A
to Branch Purchase and Assumption Agreement
Between PriMerit Bank, FSB and
World Savings and Loan Association

[Section 1.1 (p) and 7.1 (a)]

Properties

[Legal Descriptions of parcels to be attached]

Property	Common Branch Name
I	Fiesta Mall
II	Power and Broadway
III	Scottsdale
IV	Sun City West

PROPERTY I

A portion of the Southwest quarter of the Northwest quarter of the Northwest quarter of Section 33, Township 1 North, Range 5 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, more particularly described as follows:

Commencing at the Northwest corner of said Section 33; thence South 1 degree 00 minutes 05 seconds West a distance of 660.69 feet to the Northwest corner of the Southwest quarter of the Northwest quarter of the Northwest quarter of said Section 33; thence South 89 degrees 05 minutes 47 seconds East along the North line of the aforementioned Southwest quarter 67.00 feet to a point on the East right-of-way line of ALMA SCHOOL ROAD and the POINT OF BEGINNING; thence North 89 degrees 05 minutes 47 seconds East a distance of 185.13 feet; thence South 1 degree 05 minutes 49 seconds West a distance of 155.22 feet to a point on the Northerly right-of-way line of GROVE AVENUE, said point being on a non-tangent curve; thence Northwesterly along said curve, being along the Northerly right-of-way line of GROVE AVENUE; said curve being concave Southwesterly, having a cord bearing of North 73 degrees 20 minutes. 07 seconds West, a cord length of 170.03 feet, a radius of 430.56 feet, through an arc length of 171.16 feet; thence North 43 degrees 59 minutes 39 seconds West a distance of 29.78 feet to a point on the Easterly right-of-way line of ALMA SCHOOL ROAD; thence North 1 degree 00 minutes 21 seconds East a distance of 82.10 feet to the POINT OF BEGINNING.

PROPERTY II

PARCEL NO. 1:

Lot 4, of COOPER VILLAGE, according to the plat of record in the office of the County Recorder of Maricopa County, Arizona, recorded in Book 317 of Maps, Page 6 and Affidavit of Correction of Plat Dedication and Re-Dedication recorded in 88-635699, of Official Records.

PARCEL NO. 2:

A non-exclusive easement for ingress, egress, parking, pedestrian traffic and utilities as more fully set forth in Paragraph 7 of Declaration of Easements Covenants and Restrictions recorded in 87-505615, of Official Records and First Amendment recorded in 87-766146, of official Records, records of Maricopa County, Arizona.

PROPERTY III

PARCEL NO. 1:

A parcel of land located in the Northwest quarter of the Northeast quarter of Section 27, Township 3 North, Range 4 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, being more particularly described as follows:

PROPERTY IV

PARCEL NO. 1:

A part of Tract O, of SUN CITY WEST UNIT 1, according to the plat of record in the office of the County Recorder of Maricopa County, Arizona, recorded in Book 200 of Maps, Page 1, more fully described as follows:

COMMENCING at the most Westerly corner of Tract O, also known as the Southeasterly corner of Tract N and the Northeasterly right-of-way line of R. H. JOHNSON BOULEVARD; thence Southeasterly along the said right-of-way line and the arc of a curve concave Southwesterly and having a radius of 10,055.00 feet and a central angle of 02 degrees 34 minutes 00 seconds a distance of 450.45 feet to a point on a non-tangent line and the TRUE POINT OF BEGINNING; thence North 42 degrees 48 minutes 09 seconds East, a distance of 180.12 feet to a point on a non-tangent curve concave Southwesterly; thence Southeasterly along the arc of said curve having a radius of 10,235.00 feet and a central angle of 01 degrees 00 minutes 09 seconds a distance of 179.08 feet to a point on a non-tangent curve of CAMINO DEL SOL; thence along said right-of-way line and along the arc of said curve concave Southeasterly and having a radius of 18,690.00 feet and a central angle of 00 degrees 04 minutes 54 seconds a distance of 26.64 feet to a point of tangency; thence South 50 degrees 32 minutes 41 seconds West, a distance of 140.18 feet to a point on a tangent curve concave Northwesterly and having a radius of 15.00 feet and a central angle of 85 degrees 10 minutes 47 seconds; thence along the arc of said curve a distance of 22.30 feet to a point of a reversing curve concave Southwesterly; thence Northwesterly along the arc of said curve having a radius of 10,055..00 feet and a central angle of 0 degrees 48 minutes 11 seconds a distance of 140.92 feet, said curve also being the Northeasterly right-of-way line of R. H. JOHNSON BOULEVARD to the TRUE POINT OF BEGINNING.

PARCEL NO. 2:

An easement for ingress and egress and parking over the driveways and parking areas as set forth in Reciprocal Easement Agreement recorded in 88-414660, of Official Records, records of Maricopa County, Arizona.

Schedule B
to Branch Purchase and Assumption Agreement
Between PriMerit Bank, FSB and
World Savings and Loan Association

[Section 3.3]

PROPERTY		Amount of Owner's Title Insurance
I	(Fiesta Mall)	$ 880,335
II	(Power and Broadway)	$ 514,227
III	(Scottsdale)	$ 808,981
IV	(Sun City West)	$ 618,529
BRANCH LEASE		$ 350,000
CAMELBACK		$1,500,000

Schedule C
to Branch Purchase and Assumption Agreement
Between PriMerit Bank, FSB and
World Savings and Loan Association

[Section 1.1(a) and 7.1(a)]

Branch Lease

1. Lease dated November 21, 1989 between Mariah Properties, Ltd., an Arizona corporation, as landlord and PriMerit Bank as tenant (commonly known as the Sun City Grand Branch). The named parties are the current parties.

Schedule D
to Branch Purchase and Assumption Agreement
Between PriMerit Bank, FSB and
World Savings and Loan Association

[Section 7.1 (a)]

PIS Leases

Schedule E
to Branch Purchase and Assumption Agreement
Between PriMerit Bank, FSB and
World Savings and Loan Association

[Section 7.1(a) and 7.1(u)]

Zoning Categories and Tax I.D. Numbers

	Zoning Classification and Zoning Authority	Tax I.D. Numbers
Properties		
I		
II		
III		
IV		
Branch Lease Leasehold Estate		
Camelback		

Schedule F
to Branch Purchase and Assumption Agreement
Between PriMerit Bank, FSB and
World Savings and Loan Association

[Section 7.1(q)]

Licenses

Schedule G

PERMITTED EXCEPTIONS

1. With respect to the Property at 6750 East Broadway, Mesa, Arizona, that certain Declaration of Covenants, Conditions, Restrictions and Easements for Broadway Village Partners (Doc #87-505615) recorded 8/11/87 as amended by the First Amendment to the Declaration (Doc# 87-766146) recorded 12/30/87.

2. With respect to the Property at 6929 East Shea Boulevard, Scottsdale, Arizona, that certain Reciprocal Easement Agreement (Doc #88- 390288) between Fountain Plaza and Nevada Savings and Loan Association recorded 8/8/88.

3. With respect to the Property at 19001 R. H. Johnson, Sun City West, Arizona, the Covenants, Conditions and Restrictions in that certain Warranty Deed (Doc #86-722236) from Del Webb to Bade Boyes recorded 12/30/86.

4. With respect to the Property at 16059 Grand Avenue, Sun City, Arizona, the Covenants, Conditions and Restrictions contained in that certain Warranty Deed recorded 12/31/81 (Docket # 15736, page 1573), that certain Assignment of Rights Under Warranty Deed recorded 11/27/85 (Doc # 85-567128), and that certain Consent to Amend Restrictive Covenant recorded 11/13/89 (Doc #89-522086).

Exhibit A
to Branch Purchase and Assumption Agreement
Between PriMerit Bank, FSB and
World Savings and Loan Association

[Section 1.1 (q)]

Form of General Warranty Deed

[Acceptable form to be supplied by
PriMerit's legal counsel]

MARIAH/SUN CITY

EXHIBIT B [8.3b(i)]

LESSOR'S ESTOPPEL CERTIFICATE

TO: World Savings and Loan Association

RE: Lease dated November 21, 1989 (the "Lease") between Mariah Properties, Ltd., an Arizona corporation, as lessor ("Lessor") and PriMerit Bank, FSB, as lessee ("Lessee") for certain premises ("Premises") located in King's Inn Center, Sun City, Maricopa County, Arizona

The undersigned, as Lessor under the Lease, hereby certifies that, as of the date hereof, the following is true and correct:

1. A complete and accurate copy of the Lease, including all riders, addenda, amendments and/or other agreements made between Lessor and Lessee relating to or in respect of the Premises, is attached hereto.

2. The Lease is in full force and effect, and contains the entire agreement between Lessor and Lessee with respect to leasing of the Premises. There are no oral agreements between Lessor and Lessee affecting or relating to the Premises.

3. Lessee has fully satisfied all Lessee's obligations under the Lease which have arisen or accrued prior to the date hereof. There exist no uncured defaults in the performance of the Lease by either party, nor has any event occurred or condition arisen which, with the passage of time, or the giving of notice, or both, would constitute a default or breach under the Lease by either party.

4. The Lease Term commenced ___________________________________ and is scheduled to terminate ____.

5. All rent and other amounts payable by Lessee under the Lease up to and including the date hereof, including amounts payable by Lessee to third parties, have been fully paid through____.

6. The total base monthly rent currently paid by Lessee under the Lease is $____.

7. The total Security Deposit currently held by Lessor pursuant to the Lease is $____. The Security Deposit is held by Lessor at_________________.

8. Rent has been prepaid by Lessee in the following amounts for the following periods______________________________________.

9. Lessee's liability for costs and expenses related to the Premises or the property of which the Premises are a part other than basic monthly rent is as follows:

True of Expense Lessee' s Share Estimated Monthly Payment

10. Expenses set forth in paragraph 9 above constitute a complete list of all amounts payable by Lessee to Lessor under the Lease.

11. Lessee has no options to purchase or rights of first refusal in respect of the Lease, the Premises or the land of which the Premises form a part, except as reflected in the Lease. Lessee has not exercised any such option or right of first refusal.

12. Lessee has no option to renew or extend the Lease except as set forth in the Lease. Lessee has not exercised any such option.

13. There are no condemnation or eminent domain actions pending or threatened which affect the Premises, the parcel of land of which the Premises are a part or access thereto.

14. All obligations of the parties under the Lease relating to the construction or restoration of improvements have been fully satisfied and all work has been accepted and approved by both parties.

15. Lessor has no existing defenses or offsets to the performance of its obligations under the Lease.

16. World to supply additional language clarifying the meaning of ambiguous provisions, etc. as necessary).

The undersigned acknowledges that World Savings and Loan Association will rely upon this Certificate in assuming Lessee's rights and obligations under the Lease.

Dated:______________________________________, 1993

LESSOR:

MARIAH PROPERTIES, LTD., an Arizona corporation

By:_______________________________________

Its:______________________________________

MARIAH/SUN CITY

EXHIBIT C [8.3(b)(iii)]

AGREEMENT AND CONSENT TO ASSIGNMENT

[TO BE IN RECORDABLE FORM]

The undersigned, Mariah Properties, Ltd., an Arizona corporation ("Consenting Party") as the "Lessor" under that certain Lease, dated November 21, 1989 (the "Lease") between the Consenting Party and PriMerit Bank, FSB as "Lessee" thereunder (hereinafter called the "Assignor") for premises located in King's Inn Center, Sun City, Maricopa County, Arizona (the "Premises") does hereby consent to the assignment of the Assignor's interest in the Lease and the Premises to WORLD SAVINGS AND LOAN ASSOCIATION (hereinafter called the "Assignee").

The undersigned agrees that Assignee may remove Assignor's signage and install signage identifying Assignee's business at the demised premises which is approximately the same size as Assignor's current signage without necessity of further consent from, approval of or notice to Consenting Party.

All statements made by the Consenting Party in Lessor's Estoppel Certificate made by it dated _______________________, 1993 are true, complete and unchanged as of the date hereof.

The Lease as modified hereby is ratified and confirmed by the Consenting Party.

IN WITNESS WHEREOF, the undersigned has executed this Consent To Assignment the__________ day of_________________________, 1993.

Dated:_______________________________________, 1993

LESSOR:

MARIAH PROPERTIES, LTD., an Arizona corporation

By:_______________________________________

Its:______________________________________

MARIAH/SUN CITY

EXHIBIT D [Section 8.3(e)]

Non-Disturbance, Recognition and Attornment Agreement

[TO BE IN RECORDABLE FORM]

THIS AGREEMENT made as of the__________ day of _________________________,1993, among __________________________ a ____________________ _____________ having an office at ____________________ ("Mortgagee"), World Savings and Loan Association, a Federal Savings and Loan Association ("World"), and Mariah Properties, Ltd., an Arizona corporation ("Mariah").

WITNESSETH

WHEREAS, on November 21, 1989, Mariah, as landlord, and PriMerit Bank, as tenant ("PriMerit"), entered into that certain lease (the "Lease") for premises known as A-1 and a part of A-2 in the King's Inn Center, Sun City, Maricopa County, Arizona (the "Premises");

WHEREAS, a Memorandum of the Lease was or shall be recorded in the public records of Maricopa County, Arizona;

WHEREAS, the Lease was or shall be assigned by PriMerit to World and a Memorandum of such assignment was or shall be recorded in the public records of Maricopa County;

WHEREAS, Mortgagee is the present owner and holder of the mortgage described in Schedule A attached hereto (said mortgage, as the same may be amended, increased, renewed, modified, consolidated, replaced, combined, substituted, severed, split, spread or extended, being hereinafter referred to as the "Mortgage") which is a lien on the real property described in Schedule B hereto (the "Real Property"), and of the note, bond or other obligation secured by the Mortgage (the "Note").

NOW, THEREFORE, for good and valuable consideration given each to the other, receipt of which is hereby acknowledged, the parties hereby agree as follows:

1. Provided the Lease is in full force and effect and World is not in default of any material, monetary obligation under the Lease, if any action or proceeding is commenced by Mortgagee for the foreclosure or other enforcement of the Mortgage or the sale of the Real Property or any potion thereof pursuant to such foreclosure or other enforcement, World shall not be named or joined as a party defendant therein (unless required by law, in which case World may be named only for the purpose of complying with said law but not for the purpose of foreclosing World's interest) or otherwise in any suit or action to terminate the Lease, and any foreclosure of the Mortgage and any sale pursuant to any such

foreclosure, shall be subject to the Lease and the rights of World thereunder, and any successor to Mortgagee (whether as a mortgagee or as an owner of the Real Property) shall take its interest subject to the Lease and the rights of World thereunder. The possession of World shall in none of such events be disturbed nor shall the Lease be terminated or modified as a result thereof, except to the extent that upon succeeding to the interest of landlord under the Lease such successor would have such rights in accordance with the terms of the Lease, and Mortgagee shall recognize World as the direct tenant of Mortgagee upon all of the terms, covenants and conditions of the Lease.

2. If Mortgagee shall become the owner of the Real Property by reason of the foreclosure of the Mortgage or the acceptance of a deed or assignment in lieu of foreclosure, or if any other person shall purchase the Real Property by reason of such foreclosure, the Lease shall not be terminated or affected thereby but shall continue in full force and effect as a direct lease between Mortgagee or such purchaser and World upon all of the terms, covenants and conditions set forth in the Lease and in that event World with respect to the Lease agrees to fully and completely attorn to and recognize Mortgagee or such purchaser as landlord under the Lease, and Mortgagee or such purchaser shall accept such attornment of World and World shall thereafter fully and faithfully perform, from and after such date on which Mortgagee or such purchaser become such owner, each and every undertaking to be performed on the part of tenant under the Lease in accordance with the provisions thereof for the benefit of Mortgagee, and Mortgagee or such purchaser shall thereafter fully and faithfully perform each and every undertaking under the Lease to be performed on the part of landlord under the Lease in accordance with the provisions thereof for the benefit of World. The provisions of this Paragraph 2 shall be self operative without the execution of any further instruments; provided, however, that upon demand of Mortgagee or such purchaser World agrees, and upon demand of World Mortgagee and such purchaser agree, to execute and deliver from time to time instruments in recordable form to evidence and confirm the foregoing provisions of this Paragraph 3 reasonably satisfactory to both parties, acknowledging such attornment and setting forth the terms and conditions of the tenancy.

3. All notices, consents and other communications pursuant to the provisions of this Agreement shall be in writing and shall be sent by receipted courier or receipted overnight delivery, prepaid, addressed as follows:

If to Mortgagee:

____

____

____

____

If to World:

World Savings and Loan Association
1901 Harrison Street
Oakland, CA 94612
Attention: Mr. Daniel R. Dixon

If to Mariah:

165 North Central Way
Suite 208
Mesa, Arizona 85201

All notices, consents or other communications shall be deemed given on the date they are delivered (or deemed delivered as hereinafter set forth). Each party may designate a change of address by notice to the other party. The inability to deliver any such notice, consent or other communication because of changed address of which no notice was given, or rejection or refusal to accept any such notice, consent or other communication, shall be deemed to be receipt of the same as of the date of such inability to deliver or rejection or refusal to accept delivery.

4. This Agreement shall be binding upon and inure to the benefit of Mortgagee, Mariah and World, and their respective successors and assigns hereunder.

5. The terms "World" and "Mariah" as used herein shall mean World and Mariah, respectively, and any of their respective successors and assigns in interest under the Lease.

6. This Agreement may not be modified in any manner or terminated except by an instrument in writing executed by the parties hereto.

7. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Arizona. If any term of this Agreement or the application thereof to any person or circumstances shall to any extent be invalid or unenforceable, the remainder of this Agreement or the application of such term to any person or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby, and each term of this Agreement shall be made valid and enforceable to the fullest extent permitted by law.

IN WITNESS WHEREOF, Mortgagee, World and Mariah have duly executed this Agreement as of the date first above written.

WORLD SAVINGS and LOAN ASSOCIATION, a Federal Savings and Loan Association

By:_______________________________________

Title:____________________________________

MARIAH PROPERTIES, LTD., an Arizona corporation

By:_______________________________________

Title:____________________________________

[MORTGAGEE]

By:_______________________________________

Title:____________________________________

EXHIBIT A

TO

NONDISTURBANCE, RECOGNITION AND ATTORNMENT AGREEMENT

[Identification of the Mortgage]

EXHIBIT B

TO

NONDISTURBANCE, RECOGNITION AND ATTORNMENT AGREEMENT

[Legal Description of the Real Property]

SUN CITY

EXHIBIT E [10.2(a)(iii) and 10.2(b)(ii)]

ASSIGNMENT AND ASSUMPTION AGREEMENT

[TO BE IN RECORDABLE FORM]

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT, entered into this ______day of ___________________________, 1993, by and between PriMerit Bank, FSB (the "Assignor"), and World Savings and Loan Association, (called the "Assignee"):

WITNESSETH:

WHEREAS by that certain Lease dated November 21, 1989 (the "Lease"), Mariah Properties, Ltd., an Arizona corporation, as lessor leased to Assignor as lessee certain premises located in King's Inn Center, Sun City, Maricopa County, Arizona (hereinafter called the "Premises") for the term and upon the terms and conditions contained in said Lease;

WHEREAS, Assignor and Assignee have entered into that certain Branch Purchase and Assumption Agreement dated May ___, 1993, (the "Agreement"), whereby Assignor has agreed to sell and Assignee has agreed to purchase certain of the assets of Assignor described therein and whereby Assignor has agreed to transfer and Assignee has agreed to assume certain of the liabilities of Assignor described therein; and

WHEREAS, Assignor desires to assign the Lease to Assignee and Assignee desires to accept said assignment and to assume the obligations of Assignor under the Lease, all upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt whereof is hereby acknowledged, the parties agree as follows:

1. Assignor hereby assigns to Assignee all of the Assignor's right, title and interest in and to the Lease, the Premises, the security deposit identified in paragraph 6 of the Lease and all leasehold improvements and fixtures installed or located therein, free and clear of liens, encumbrances, restrictions and other matters except as expressly set forth in Exhibit A hereto.

2. The representations and warranties of Assignor under the Agreement in respect of the Lease and the Premises are correct, complete and unchanged from the date of the Agreement.

3. Assignee hereby accepts said assignment of Assignor's interest in the Lease and hereby assumes all of the obligations of the lessee under the Lease first arising and accruing on or after the date hereof.

4. Assignor agrees to and does hereby indemnify, defend and hold Assignee harmless from and against any loss, liability, damage, claims, demands, cost or expense, including reasonable attorneys' fees, arising out of or in connection with the obligations of the lessee under the Lease or the use and occupancy of the Premises prior to the date hereof which are or may be imposed upon, incurred by or asserted against Assignee by reason of Assignor's failure to perform its obligations under this Agreement or under the Lease.

5. Assignee agrees to and does hereby indemnify and hold Assignor harmless from and against any loss, liability, damage, claims, demands, cost or expense, including reasonable attorneys' fees, resulting directly from Assignee's breach of its obligations as the lessee under the Lease arising on or after the date hereof which are imposed upon or incurred by Assignor by reason of Assignee's failure to perform its obligations under this Agreement or under the Lease.

6. Should any action or proceeding be commenced between the parties to this Assignment concerning this Assignment, or the rights and duties of either in relation hereto, the party prevailing in such litigation shall be entitled, in addition to such other relief as may be granted in the action or proceeding, to a reasonable sum as and for its attorneys' fees in such litigation which shall be determined by the court in such litigation or in a separate action brought for that purpose.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed the day and year first above written.

PriMerit BANK, FSB

By:_______________________________________
[NAME]
[TITLE]

WORLD SAVINGS AND LOAN ASSOCIATION,
a Federal Savings and Loan Association

By:_______________________________________
[NAME]
[TITLE]

EXHIBIT A

TO

ASSIGNMENT AND ASSUMPTION AGREEMENT

List of Permitted Title Exceptions for
Sun City Lease Location

SUPPLEMENTAL AGREEMENT

WORLD SAVINGS AND LOAN ASSOCIATION ("WORLD") and PRIMERIT BANK, FSB ("PriMerit") executed a Branch Purchase and Assumption Agreement, dated as of May 12, 1993, as amended ("Agreement") pursuant to which World has agreed to acquire and PriMerit has agreed to dispose of certain interests in real property, subject to various conditions as set forth in the Agreement. The transactions contemplated by the Agreement are scheduled to close on August 13, 1993, and during the course of the performance by the respective parties, certain provisions of the Agreement have been modified by mutual agreement. The purpose of this Supplemental Agreement is to memorialize those changes without the necessity of rewriting the Agreement.

In furtherance of the foregoing the parties agree to the following changes in the Agreement effective as of August 12, 1993:

1. Section 1.1(d) is amended to read as follows:

   "(d) 'Camelback Lease' means that certain Lease between PriMerit, as Landlord, and World, as Tenant, with a commencement date on or about August 13, 1993, and having real property in the City of Phoenix as the premises demised thereunder;"

2. Sections 1.1(g); 1.1(h); 1.1(s) 1.1(ff); 8.3(b)(vi); and 10.2(a)(ix) are deleted in their entirety.

3. Section 1.1(k) is amended to read as follows:

   "(k) 'Contract Rights' means all rights and interests of PriMerit in, to, or under all contracts, licenses, agreements, or other instruments relating to the Realty except to the extent that they are the subject of the Purchase Agreement and except the Branch Lease and the Camelback Lease;"

4. Wherever in the Agreement, including without limitation Sections 1.1(x), 1.1(bb), 1.1(ee), 4.1, 5.1, 5.3, 5.8, 5.9, and 7.2(1), the term "Camelback Subleasehold Estate" is used, such term shall be amended to read "Camelback Leasehold Estate."

5. Whenever in the Agreement, including without limitation Sections 3.1 and 4.1, the term "Camelback Sublease" is used, such term shall be amended to read "Camelback Lease."

6. Section 5.2 is amended by deleting from the form of surveyor's certification the clause "that no such buildings or improvements violate any setback requirement;", it being understood that the Title Company does not require such certification as a condition of issuing the Title

Policies, and World has agreed to accept zoning confirmation letters from the applicable municipal jurisdictions in lieu of such certification.

7. Section 5.6 is amended by deleting everything after "enter upon and inspect the Camelback Office" through "10.2(b)(ii) below."

8. The last sentence of Section 7.2(g) as amended to read:

"As of the Closing Date all the Locations shall be free and clear of any and all Hazardous Substances except for asbestos containing materials at the Camelback Office identified in the Environmental Report of Dames & Moore, dated July 21, 1993, the removal, control and management of which shall be governed by the Camelback Lease and by the Operations and Maintenance Plan which will be adopted by the parties as of the Closing Date."

9. Section 7.2(u) is amended to read as follows:

"(u) PriMerit shall have, as of the Closing Date, good and marketable indefensible title in fee simple to the premises which are the subject of the Camelback Lease, subject only to: (i) the Permitted Exceptions, (ii) zoning, setback, building and other similar restrictions which are not violated in any material respect and which do not and will not, in World's opinion, have an adverse effect on use of the Camelback Office for retail banking purposes, and (iii) the effect, if any, of that certain Conditional Quit Claim Deed, recorded May 22, 1985 in Document 85-234437, in which the City of Phoenix is grantee. The premises subject to the Camelback Lease are all the real property and improvements used by PriMerit for or in connection with the operation of its Camelback branch location. The Camelback Office has been classified by the applicable zoning authority in the zoning classification set forth in Schedule E with respect thereto. The property tax parcel numbers set forth in Schedule E are the only tax parcel numbers assigned to the premises to be demised under the Camelback Lease and said numbers include no other property. PriMerit is in exclusive possession of the Camelback Office and the Camelback Office is not subject to any sublease, license or other occupancy agreement. There are no condemnation or eminent domain actions pending or threatened which affect the Camelback Office."

10. Section 8.3(a)(i) is amended by deleting "or the Camelback Lease".

11. Section 8.3(d) is amended to read as follows:

"(d) Not later than the day before the Closing, PriMerit and World shall have agreed upon the form of the Camelback Lease, (i) having as a base rent payable thereunder, an amount comparable to the base rent heretofore payable by PriMerit under that certain lease agreement with Ruth K. Watanabe with respect to the Camelback Office, (ii) obligating World to pay amounts equivalent to the ad valorem real property taxes on the Camelback Office and the sales, excise or similar taxes measurable by the rentals paid under the Camelback Lease, (iii) making the expenses and costs of day-to-day operations, maintenance and repair of the Camelback Office the responsibility of World, and (iv) containing other terms and conditions mutually acceptable to World and PriMerit which are commercially reasonable in a lease between unrelated parties for free-standing office buildings in the metropolitan Phoenix, Arizona area."

12. Section 10.2(a)(viii) is amended to read:

"(viii) the Camelback Lease and a memorandum or short form thereof;"

13. Section 10.2(b)(ii) is amended to read:

"(ii) the Camelback Lease and a memorandum or short form thereof;"

14. Section 11.3 is amended to read as follows:

"11.3. In the event that, for any reason, the parties hereto fail to enter into a mutually acceptable Camelback Lease as described in Section 8.3(d) above as required by Sections 10.2(a)(viii) and 10.2(b)(ii), World in such event, at World's option, may elect to exclude the Camelback Office from the transaction which is the subject of this Agreement and upon such exclusion the parties shall be relieved from all further obligations under this Agreement in respect of the Camelback Office and the Camelback Lease."

This Supplemental Agreement is intended to meet the requirements of Section 13.5 of the Agreement. Except as expressly set forth above, the parties hereto ratify and affirm the provisions of the Agreement.

DATED: August 12, 1993.

WORLD SAVINGS AND LOAN ASSOCIATION

By:_______________________________________

Its:______________________________________

PRIMERIT BANK, FSB

By:_______________________________________

Its:______________________________________

NON-COMPETITION AGREEMENT

This NON-COMPETITION AGREEMENT (the "Agreement") is made and entered into this 12th day of May, 1993 by PriMerit Bank, FSB ("PriMerit"), Southwest Gas Corporation ("Southwest Gas"), a California corporation, and World Savings and Loan Association ("World"). All capitalized terms used herein without definition have the meaning assigned to them in the Purchase Agreement (as defined below).

A. WHEREAS, PriMerit is a wholly owned subsidiary of Southwest Gas;

B. WHEREAS, World and PriMerit are contemporaneously entering into an Agreement to Purchase Assets and Assume Liabilities dated May 12, 1993 (the "Purchase Agreement") pursuant to which World will acquire certain assets and assume certain liabilities of PriMerit located in the State of Arizona; and

C. WHEREAS, execution of this Agreement is a condition to the obligations of World and PriMerit to enter into the Purchase Agreement;

NOW, THEREFORE, in consideration of the promises and of the mutual agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and in order to induce World to purchase certain assets and assume certain liabilities pursuant to the terms of the Purchase Agreement, PriMerit and Southwest Gas hereby undertake, covenant, and agree as follows:

1. Non-Competition by PriMerit. For a period of five years commencing as of the Closing Date, PriMerit and Southwest Gas will not, and will not permit any subsidiary to, (i) open either a new deposits gathering facility or automated teller machine in the State of Arizona or (ii) solicit by mail, general advertisement, or other means specifically directed into Arizona, any deposits from persons residing in the State of

Arizona. This restriction shall not apply in the event that PriMerit is merged with and into an unaffiliated depository institution which is operating a retail deposit branch franchise in the State of Arizona; provided, that, the institution resulting from such merger shall not do business in the State of Arizona during such five-year period under any of the various trademarks or trade names currently owned or used by PriMerit nor shall such resulting institution solicit the loan customers of PriMerit whose loans have been purchased by World or the former depositors of PriMerit.

2. Restrictions on Transfer of Branch. For a period of three years commencing as of the Closing Date, PriMerit and Southwest Gas (to the extent Southwest Gas acquires the Sun City-Bell branch), shall not: (i) sublease, assign or transfer, in any manner, the premises of the Sun City-Bell branch to a thrift institution, commercial bank or other depository institution; (ii) enter into a transaction with any lessor of the Sun City-Bell branch that contemplates or results in a lease or sublease of the premises of the Sun City-Bell branch to a thrift institution, commercial bank or other depository institution; or (iii) take any other action that would permit or result in the operation on the premises of the Sun City-Bell branch of an office or branch of a thrift institution, commercial bank or other depository institution; provided, that, it shall not be deemed a violation of this provision for PriMerit or Southwest Gas to lease additional space to persons who are tenants at the Sun City-Bell branch at the time of Closing or to engage in one of the transactions restricted herein with a brokerage house.

3. No Solicitation. For a period of three (3) years following the Closing Date, PriMerit or Southwest Gas will not initiate contact with any of the employees

of PriMerit who are still employed by World for the purpose of offering that person employment with PriMerit or Southwest Gas.

4. Compensation. As consideration for the agreements of PriMerit described herein, World will pay PriMerit $1,600,000, due and payable at Closing. Southwest Gas hereby acknowledges that the receipt of such consideration by PriMerit is of indirect benefit to it.

5. Necessity of Covenants. PriMerit and Southwest Gas hereby acknowledge and agree that the covenants contained in this Agreement, and the geographic reach and duration of such covenants, are reasonable and fully necessary for the protection of the legitimate interest of World and, at the same time, are neither harsh nor oppressive to the rights or interests of PriMerit or Southwest Gas or any party which is or shall become an affiliate of PriMerit or Southwest Gas controlled by PriMerit or Southwest Gas.

6. Unenforceable Provisions. If any of the provisions of this Agreement are held to be unenforceable because of the scope, term or area of their applicability, then the court making such determination shall have the power to modify such scope, term or area or all of them to the extent necessary to render this Agreement enforceable under applicable law, and such provisions shall then be enforceable in such modified form. It is the intention of the parties that each and every provision of this Agreement shall be valid and enforceable to the fullest extent and in the broadest application permitted by law.

7. Representations and Warranties of PriMerit and Southwest Gas. PriMerit and Southwest Gas hereby represent and warrant to World as follows: PriMerit and

Southwest Gas are corporations duly organized, validly existing and in good standing under their respective jurisdictions of incorporation. PriMerit and Southwest Gas have full corporate power and authority to execute and deliver this Agreement and to perform all of their obligations under this Agreement. This Agreement has been duly authorized by all necessary corporate action on the part of PriMerit and Southwest Gas, has been duly and validly executed and delivered by PriMerit and Southwest Gas and, assuming this Agreement has been duly and validly executed and delivered by World, constitutes a valid and binding agreement of PriMerit and Southwest Gas enforceable against PriMerit and Southwest Gas in accordance with its terms, subject in each case to applicable bankruptcy, insolvency, reorganization, moratorium, and other similar laws now or hereafter in effect relating to or affecting creditors' rights generally, to general equitable principles, and to utility regulatory laws, whether applied by a court of law or equity.

8. Remedies. The parties agree that World will be irreparably damaged if the provisions hereof are not specifically enforced, and that World shall be entitled to an injunction (either preliminary, permanent, or both) restraining any violation of this Agreement by PriMerit or Southwest Gas, or any other appropriate decree of specific performance. Such remedy shall not be exclusive and shall be in addition to any other remedy which World may have including, without limitation, recovery of damages.

9. Binding Effect. This Agreement shall inure to the benefit of World and its successors and assigns, and shall be binding upon PriMerit and Southwest Gas and their successors and assigns. No party hereto may assign its rights or delegate its obligations under this Agreement without the express prior written consent of the other

party hereto and any attempted assignment or delegation without such consent shall be without force or effect. Nothing in this Agreement shall interfere with the operation of SWG Federal Credit Union in Arizona or in any state in which Southwest Gas operates.

10. Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of California, exclusive of the conflict of laws provisions thereof. Each of the parties hereto hereby irrevocably and unconditionally consents to the exclusive jurisdiction of the courts of the State of California and of the United States of America, in each case located in the County of Alameda, for any actions, suits or proceedings arising out of or relating to this Agreement and the transactions contemplated hereby (and agrees not to commence any action, suit or proceeding relating thereto except in such courts).

11. Headings. The headings of the actions of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

12. Modification and Waiver. No amendment, modification, or alteration of this Agreement shall be binding unless the same shall be in writing, duly executed by PriMerit, Southwest Gas and World. No waiver of any of the provisions of this Agreement shall constitute a waiver of any other provision hereof. No delay on the part of World in exercising any right or privilege hereunder shall operate as a waiver of any other breach of this Agreement.

13. Attorneys' Fees. Each party shall bear the cost of its own

attorneys' fees incurred in connection with the preparation of this Agreement and consummation of the transactions described herein. Notwithstanding the foregoing, in any action between the parties seeking enforcement of any of the terms and provisions of this Agreement or in connection with any of the property described herein, the prevailing party in such action shall be awarded its reasonable costs and expenses and reasonable attorneys' fees.

14. Entire Agreement. This Agreement contains the entire agreement among the parties with respect to the subject matter hereof, and supersedes all prior agreements, written or oral, with respect thereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first stated above.

PRIMERIT BANK, FSB

By:____
Title: President & Chief Executive Officer
DAN J. CHEEVER

SOUTHWEST GAS CORPORATION

By:____
Title: President & Chief Operating Officer

WORLD SAVINGS AND LOAN ASSOCIATION

By:____
Title: Senior Vice President

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT (the "Agreement") is made and entered into this 12th day of May, 1993, by and between World Savings and Loan Association ("World") and PriMerit Bank, FSB ("PriMerit"). All capitalized terms used herein without definition have the meaning assigned to them in the Purchase Agreement (as defined below).

A. WHEREAS, World and PriMerit are contemporaneously entering into an Agreement to Purchase Assets and Assume Liabilities dated May 12, 1993 (the "Purchase Agreement") pursuant to which World will acquire certain assets and assume certain liabilities of PriMerit located in the State of Arizona;

B. WHEREAS, World recognizes that PriMerit has developed considerable expertise in the management and marketing of a retail consumer financial branch franchise in the State of Arizona and, in connection with its acquisition of PriMerit, World wishes to have the benefit of this expertise in assimilating the PriMerit operations and in developing its own Arizona operations;

C. WHEREAS, execution of this Agreement is a condition to the obligation of World and PriMerit to enter into the Purchase Agreement; and

D. WHEREAS, World and PriMerit desire to set forth in this Agreement the terms and conditions pursuant to which PriMerit will provide consulting services to World;

NOW, THEREFORE, in consideration of the promises and of the mutual agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and in order to induce World to purchase

certain assets and assume certain liabilities pursuant to the terms of the Purchase Agreement, the parties hereby undertake, covenant, and agree as follows:

1. Duties of Consultants.

(a) Beginning on the date of Closing of the Purchase Agreement and continuing through December 31, 1993, PriMerit shall cause one or more of its employees to provide consulting services to World (the "Consulting Employees") with respect to the management, marketing and integration of the Branch Offices acquired by World and with respect to the financial services business generally in the State of Arizona. World may request that PriMerit designate particular employees to provide such consulting services and PriMerit will honor those requests in the ordinary course. The Consulting Employees shall devote their close attention and best efforts to such consulting services.

(b) The Consulting Employees will be available to perform the services described herein from time to time at the request of World during the normal business day, provided that, the Consulting Employees shall not be required to provide more than 50 hours of service in any given month. The Consulting Employees shall not be required to follow a regular schedule or to report on any periodic basis to World's offices. The Consulting Employees may render services by telephone, telefax or written communication, provided, that, in the reasonable judgment of World, the use of such means of communication represents an effective and efficient means of performing such services.

(c) The Consulting Employees are employees of PriMerit and shall not be considered employees or agents of World, nor shall the Consulting Employees have the authority to act for World, except as specifically agreed herein or as specifically

authorized in writing by the Chief Executive Officer of World. PriMerit shall at all times be an independent contractor with respect to World for purposes of this Agreement.

2. Exclusivity of Consulting Arrangement.

World and PriMerit recognize that due to the nature of the relationship of PriMerit and the Consulting Employees to World and to the Branch Offices, both in the past and in the future, PriMerit and the Consulting Employees have had access to and have acquired and may continue to have access to and acquire information relating to the business and operations of the Branch Offices and of World, including, without limiting the generality of the foregoing, information with respect to the Branch Offices and World's present and prospective products, systems, customers, agents, process, and sales and marketing methods, other than information which is, or becomes, generally available to the public ("Confidential Information"). PriMerit accordingly agrees that for a period of two (2) years from the date of this Agreement, neither PriMerit nor any of its employees shall perform financial consulting or advisory services pursuant to a formal agreement or otherwise for any other depository or financial institution in the State of Arizona.

3. Confidential Information.

PriMerit hereby agrees that neither it nor the Consulting Employees shall, at any time during the term of this Agreement or thereafter, reveal, divulge, or make known to any person, or use for its or their own account, any Confidential Information now known to them or made known to them by reason of PriMerit providing consulting services to World under this Agreement. Upon expiration of the consulting period set forth in Section 1 hereof, all documents, records, notebooks, magnetic storage materials,

and similar repositories of or containing Confidential Information, including all copies thereof, then in the possession of PriMerit, or the Consulting Employees or under their control, whether prepared by any of them or others, will be immediately returned to World.

4. Compensation.

As consideration for PriMerit's consulting services hereunder, World will pay to PriMerit $750,000, due and payable at Closing.

5. Representation and Warranty of PriMerit.

(a) PriMerit hereby represents and warrants to World that the performance of its duties hereunder does not and will not violate any provision of law or fiduciary duty by which PriMerit or any of the Consulting Employees is bound and will not conflict with or result in a breach of any agreement or instrument to which PriMerit or any of the Consulting Employees is a party or by which it or he are bound or affected.

(b) PriMerit hereby represents, warrants and agrees that it will obtain from each person who serves as a Consulting Employee a written undertaking in substantially the form of Exhibit A annexed hereto. PriMerit shall deliver to World a signed copy of each such undertaking within five (5) days after the same shall have been obtained by PriMerit.

6. General Provisions.

(a) Governing Law. The terms of this Agreement shall be governed by and construed in accordance with the laws of the State of California, exclusive of the conflicts of law provisions thereof.

(b) Titles for Convenience. Any titles used in this Agreement

are for convenience only and shall not be deemed to affect the meaning or construction of any of the provisions of this Agreement.

(c) Binding Effect. This Agreement shall inure to the benefit of World and its successors and assigns, and shall be binding upon PriMerit and its successors and assigns. No party hereto may assign its rights or delegate its obligations under this Agreement without the express prior written consent of the other party hereto.

(d) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed one and the same instrument.

(e) Modification and Waiver. No amendment, modification, or alteration of this Agreement shall be binding unless the same shall be in writing, duly executed by PriMerit and World. No waiver of any of the provisions of this Agreement shall constitute a waiver of any other provision hereof. No delay on the part of World in exercising any right or privilege hereunder shall operate as a waiver thereof and no waiver of any breach of this Agreement shall operate as a waiver of any other breach of this Agreement.

(f) Attorneys' Fees. Each party shall bear the cost of its own attorneys' fees incurred in connection with the preparation of this Agreement and consummation of the transactions described herein. Notwithstanding the foregoing, in any action between the parties seeking enforcement of any of the terms and provisions of this Agreement or in connection with any of the property described herein, the prevailing party in such action shall be awarded its reasonable costs and expenses and reasonable attorneys'

fees.

(g) Entire Agreement. This Agreement contains the entire agreement among the parties with respect to the subject matter hereof, and supersedes all prior agreements, written or oral, with respect thereto.

IN WITNESS WHEREOF, this Agreement has been executed and accepted as of the date first stated above.

PRIMERIT BANK, FSB

By:_______________________________________
Title: President and Chief Executive Officer
DAN J. CHEEVER

WORLD SAVINGS AND LOAN ASSOCIATION

By:_______________________________________
Title: Senior Vice President

EXHIBIT A

World Savings and Loan Association
1901 Harrison Street
Oakland, California 94612-3587

Gentlemen:

The undersigned understand(s) that World Savings and Loan Association and PriMerit Bank, FSB have entered into a Consulting Agreement (the "Agreement") dated May 12, 1993, in connection with World's acquisition of certain branches of PriMerit located in the state of Arizona (the "Branch Offices"). Pursuant to that Agreement, the undersigned understands that he/she may be requested to provide consulting services to World with respect to management, marketing and integration of the Branch Offices and with respect to the financial services business generally in the State of Arizona.

The undersigned recognize(s) that he/she may have had access to and may continue to have access to confidential and proprietary information relating to the business and operations of the Branch Offices and of World, including, without limiting the generality of the foregoing, information with respect to the Branch Offices and World's present and prospective products, systems, customers, agents, process, and sales and marketing methods, other than information which is, or becomes, generally available to the public ("Confidential Information"). The undersigned accordingly agrees that he/she shall not at any time during the term of the Agreement or thereafter, reveal, divulge, or make known to any person, or use for his/her own account, any Confidential Information now known to him/her or made known to him/her by reason of providing consulting services to World under this Agreement. Upon expiration of the Agreement, the undersigned further agree(s) that all documents, records, notebooks, magnetic storage materials, and similar repositories of or containing Confidential Information, including all copies thereof, then in the possession of the undersigned will be immediately returned to World.

Yours very truly,

____

Dated:____________________________________

Exhibit 21.01

SOUTHWEST GAS CORPORATION

LIST OF SUBSIDIARIES OF THE REGISTRANT

AT DECEMBER 31, 1993

SUBSIDIARY NAME	STATE OF INCORPORATION OR ORGANIZATION TYPE
The Southwest Companies	Nevada
PriMerit Bank	Federally chartered stock savings bank
Paiute Pipeline Company	Nevada
Carson Water Company	Nevada
Southwest Gas Transmission Company	Partnership between Southwest Gas Corporation and Utility Financial Corp.
Utility Financial Corp.	Nevada
Southwest Gas Corporation of Arizona	Nevada

PRIMERIT BANK
SUBSIDIARIES
AT DECEMBER 31, 1993

First Nevada, Ltd.	Nevada
Home Trustee, Inc.	Nevada
Nevada-Vistas Corporation	Nevada
Nevada-High Country II Corporation	Nevada
Trans-Pacific Funding Corp.	California
Nevada-Karmlco	California
Nevada-Los Colinas	Nevada
Nevada-Verdemont Corporation	California
NEV Development Corporation	Arizona
First Nevada Company	Nevada
H. S. Service Corporation	Nevada
Nevada Equities, Ltd.	Nevada
BSF Trustee, Inc.	Nevada
Nevada Laurel Corporation	Nevada
Nevada Capital, Ltd.	California
PriMerit Investor Services	Nevada
Nevada-Victorville Corporation	California
Nevada-Esinore Corporation	California
Nevada-La Cresta Corporation	California
Nevada-Cleveland Corporation	California

Exhibit 23.01

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 25, 1994 (1993 Annual Report on Form 10-K and Supplemental Schedules), included in this Form 10-K, into Southwest Gas Corporation's previously filed registration statements on Form S-8 which was filed on June 29, 1990 (File No. 33-35637), Form S-3 which was filed on June 29, 1990 (File No. 33-35636), and Form S-8 which was filed on July 5, 1990 (File No. 33-35737).

ARTHUR ANDERSEN & CO.

Las Vegas, Nevada
March 25, 1994