

AGL RESOURCES INC  
Form S-3ASR  
July 31, 2013  
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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 31, 2013.

REGISTRATION NO. 333-

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

**FORM S-3**  
**REGISTRATION STATEMENT**  
*UNDER*  
*THE SECURITIES ACT OF 1933*

**AGL RESOURCES INC.**

**AGL CAPITAL CORPORATION**  
(Exact name of registrant as specified in its charter)

**AGL CAPITAL TRUST II**

Georgia

Nevada  
(State or other jurisdiction of incorporation or organization)

Delaware

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58-2210952

88-0472393  
(IRS Employer Identification Number)

		c/o AGL Resources Inc.
Ten Peachtree Place, N.E.,	2215-B Renaissance Drive,	Ten Peachtree Place, N.E.,
Atlanta, Georgia 30309	Las Vegas, Nevada 89119	Atlanta, Georgia 30309
(404) 584-4000	(702) 967-2442	(404) 584-4000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)		

Andrew W. Evans		
Executive Vice President and	Paul R. Shlanta	c/o Paul R. Shlanta
Chief Financial Officer	President	President
AGL Resources Inc.	AGL Capital Corporation	AGL Capital Corporation
Ten Peachtree Place, N.E.	Ten Peachtree Place, N.E.	Ten Peachtree Place, N.E.
Atlanta, Georgia 30309	Atlanta, Georgia 30309	Atlanta, Georgia 30309
(404) 584-4000	(404) 584-4000	(404) 584-4000
(Name, address, including zip code, and telephone number, including area code, of agent for service)		

*Copy to:*

Paul Davis Fancher  
W. Brinkley Dickerson, Jr.  
Troutman Sanders LLP  
600 Peachtree Street, N.E., Suite 5200  
Atlanta, Georgia 30308-2216  
(404) 885-3000

**Approximate date of commencement of proposed sale of the securities to the public:** From time to time after this registration statement becomes effective.

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

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

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

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

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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Title of each class of securities to be registered	Amount to be registered <sup>(1)</sup>	Proposed maximum offering price per unit <sup>(1)</sup>	Proposed maximum aggregate offering price <sup>(1)</sup>	Amount of Registration Fee <sup>(2)</sup>
Debt Securities <sup>(3)(5)(6)</sup>				
Guarantee of Debt Securities <sup>(4)</sup>				
Trust Preferred Securities				
Junior Subordinated Debentures				
Guarantee with respect to the Trust Preferred Securities <sup>(4)</sup>				
Guarantee with respect to the Junior Subordinated Debentures <sup>(4)</sup>				
Common Stock, \$5.00 par value per Share <sup>(3)(5)(6)</sup>				
Preferred Stock <sup>(3)(5)(6)</sup>				
Purchase Contracts <sup>(3)(5)</sup>				
Guarantee of Purchase Contracts <sup>(4)</sup>				
Warrants <sup>(3)(6)</sup>				
Guarantee of Warrants <sup>(4)</sup>				
Units <sup>(3)(7)</sup>				
Guarantee of Units <sup>(4)</sup>				
<b>TOTAL</b>				

- (1) Not applicable pursuant to General Instruction II.E to Form S-3. An indeterminate aggregate initial offering price or number of the securities of each identified class is being registered as may from time to time be issued at indeterminate prices.
- (2) In accordance with Rules 456(b) and 457(r) under the Securities Act of 1933, as amended, the registrants are deferring payment of the registration fee. Registration fees will be paid subsequently on a pay as you go basis.
- (3) Also includes such indeterminate number of Debt Securities, Common Stock, Preferred Stock, Purchase Contracts and Warrants that may be issued upon exercise or settlement of Purchase Contracts, Warrants or Units or that may be issued upon exchange or conversion of Debt Securities. No separate consideration will be received for the Debt Securities, Common Stock, Preferred Stock, Purchase Contracts and Warrants issuable upon exercise or settlement of Purchase Contracts, Warrants or Units or upon exchange or conversion of Debt Securities.
- (4) No separate consideration will be received for the Guarantee with respect to the Debt Securities, the Guarantee with respect to the Trust Preferred Securities, the Guarantee with respect to the Junior Subordinated Debentures, the Guarantee with respect to the Purchase Contracts, the Guarantee with respect to the Warrants or the Guarantee with respect to the Units, and, pursuant to Rule 457(n) under the Securities Act, no registration fee is required with respect to these guarantees.
- (5) There are being registered hereby such indeterminate number of Purchase Contracts as may be issued at indeterminate prices. Such Purchase Contracts may be issued together with any of the other securities being registered hereby. Purchase Contracts may require the holder thereof to purchase or sell Debt Securities, Common Stock, Preferred Stock, securities of third parties, a basket of such securities, an index or indices of such securities or any combination of the foregoing.
- (6) There are being registered hereby such indeterminate number of Warrants as may be issued at indeterminate prices. Such Warrants may be issued together with any of the securities registered hereby or separately. Warrants may be exercised to purchase Debt Securities; Common Stock; Preferred Stock; securities of third parties; other rights, including rights to receive payment in cash or securities based on the value, rate or price of one or more specified securities or indices; or any combination of the foregoing.
- (7) Any securities registered hereunder may be sold separately or as units with other securities registered hereunder.



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PROSPECTUS

**AGL Resources Inc.**

**AGL Capital Corporation**

**AGL Capital Trust II**

**Debt Securities**

**Guarantee of Debt Securities**

**Trust Preferred Securities**

**Guarantee with respect to the Trust Preferred Securities**

**Junior Subordinated Debentures**

**Guarantee with respect to the Junior Subordinated Debentures**

**Common Stock**

**Preferred Stock**

**Purchase Contracts**

**Guarantee of Purchase Contracts**

**Warrants**

**Guarantee of Warrants**

**Units**

**Guarantee of Units**

We will provide the specific terms of these securities in supplements to this prospectus. You should read this prospectus and the applicable prospectus supplement carefully before you invest. This prospectus may not be used to sell securities unless accompanied by a prospectus

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supplement. The securities offered in this prospectus and the applicable prospectus supplement may be offered at a fixed public offering price or at varying prices determined at the time of sale.

Our common stock trades on the New York Stock Exchange under the symbol GAS. There is no established public trading market for any of the other securities offered in this prospectus.

**Investing in our securities involves risks. You should carefully consider the information referred to under the heading Risk Factors beginning on page 5.**

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

**The date of this Prospectus is July 31, 2013.**

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**ABOUT THIS PROSPECTUS**

*This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission ( SEC ) using the shelf registration process. Under this shelf registration process, we may offer and sell from time to time any combination of the securities described in this prospectus in one or more offerings up to an indeterminate total dollar amount.*

*This prospectus provides you with a general description of us and some of the securities we may offer. Each time we offer and sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement together with the additional information incorporated into this prospectus or described under the headings *Where You Can Find More Information* and *Incorporation of Certain Documents by Reference*.*

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

*In this prospectus, we refer to debt securities, guarantees of debt securities, trust preferred securities and related guarantees, junior subordinated debentures and related guarantees, common stock, preferred stock, purchase contracts and related guarantees, warrants and related guarantees, and units and related guarantees collectively as securities. AGL Resources Inc. may be referred to herein as AGL Resources and AGL Capital Corporation may be referred to as AGL Capital. AGL Capital Trust II is referred to as the trust. The terms we, us and our refer to the consolidated operations of AGL Resources, including AGL Capital and the trust, unless otherwise indicated.*

*We may sell securities to underwriters who will sell the securities to the public on terms fixed at the time of sale. In addition, the securities may be sold by us directly or through dealers or agents designated from time to time, who may be affiliates of ours. If we, directly or through agents, solicit offers to purchase the securities, we reserve the sole right to accept and, together with our agents, to reject, in whole or in part, any such offer.*

*For the securities being sold, the prospectus supplement will also include the names of the underwriters, dealers or agents, if any, their compensation, the terms of the offering, and the net proceeds to us and the trust, as applicable.*

*Any underwriters, dealers or agents participating in the offering may be deemed underwriters within the meaning of the Securities Act of 1933, as amended, or the Securities Act.*

*Additionally, shares of common stock may be offered and sold from time to time by a selling shareholder named in a prospectus supplement who has acquired, or will acquire, our common stock in transactions that were not, or will not be, registered under the Securities Act, as described under *Plan of Distribution*. Specific information with respect to any offer and sale by any selling shareholder will be set forth in the prospectus supplement relating to that transaction.*

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy this information at the SEC's public reference room at:

Public Reference Room

100 F Street, N.E.

Washington, DC 20549

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You may call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from commercial document retrieval services and at the Internet website that the SEC maintains at <http://www.sec.gov>. In addition, materials and information concerning us can be inspected at the New York Stock Exchange, 20 Broad Street, 7th Floor, New York, New York 10005, where our common stock is listed.

This prospectus is part of a registration statement that we filed with the SEC. The full registration statement may be obtained from the SEC or us, as indicated below. Documents and forms of documents establishing the terms of the offered securities are filed as exhibits to the registration statement. Statements in this prospectus about these documents are summaries. You should refer to the actual documents for a more complete description of the relevant matters.

**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The SEC's rules allow us to incorporate by reference information we file with the SEC into this prospectus. This means that we can disclose important information to you by referring you to another document. Any information referred to in this way is considered part of this prospectus from the date we file that document. Any reports filed by us with the SEC after the date of this prospectus will automatically update and, where applicable, supersede any information contained in this prospectus or incorporated by reference into this prospectus.

We incorporate by reference into this prospectus the following documents or information filed with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules):

Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed on February 6, 2013 (SEC File No. 001-14174);

Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 filed on April 30, 2013 (SEC File No. 001-14174);

Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 filed on July 31, 2013 (SEC File No. 001-14174);

Current Reports on Form 8-K filed on March 1, 2013, March 27, 2013 (items 1.01, 2.03 and 9.01), May 1, 2013, May 16, 2013 and June 6, 2013 (SEC File No. 001-14174); and

Description of Common Stock contained in Registration Statement on Form 8-B (Item 4) filed on January 18, 1996 (SEC File No. 001-14174).

We also incorporate by reference all documents that we may file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, after the date of this prospectus and prior to the termination of the offering.

You can obtain any of the documents incorporated by reference in this prospectus from us, or from the SEC through the SEC's Internet website at the address provided above. Documents incorporated by reference are available from us without charge, excluding any exhibits to those documents, unless the exhibit is also specifically incorporated by reference in this prospectus. You can obtain documents incorporated by reference in this prospectus by requesting them in writing or by telephone from us at the following address:

AGL Resources Inc.

Ten Peachtree Place, N.E., Location 1071

Atlanta, Georgia 30309

Investor Relations

Telephone: (404) 584-4577



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**FORWARD-LOOKING STATEMENTS**

This prospectus, the accompanying prospectus supplement and the documents incorporated by reference herein contain forward-looking statements. These statements, which may relate to such matters as future earnings, growth, supply and demand, costs, subsidiary performance, new technologies and strategic initiatives, often include words such as anticipate, assume, believe, can, could, estimate, expect, forecast, goal, indicate, intend, may, outlook, plan, potential, predict, project, proposed, seek, should, target, would or similar. These statements are cautioned not to place undue reliance on forward-looking statements. While AGL Resources believes that its expectations are reasonable in view of the information that it currently has, these expectations are subject to future events, risks and uncertainties, and there are numerous factors many beyond AGL Resources control that could cause actual results to vary materially from these expectations.

Such events, risks and uncertainties include, but are not limited to, changes in price, supply and demand for natural gas and related products; the impact of changes in state and federal legislation and regulation, including any changes related to climate matters; actions taken by government agencies on rates and other matters; concentration of credit risk; utility and energy industry consolidation; the impact on cost and timeliness of construction projects by government and other approvals, development project delays, adequacy of supply of diversified vendors, and unexpected change in project costs, including the cost of funds to finance these projects; limits on pipeline capacity; the impact of acquisitions and divestitures; AGL Resources ability to successfully integrate operations that it has or may acquire or develop in the future; direct or indirect effects on AGL Resources business, financial condition or liquidity resulting from a change in AGL Resources credit ratings or the credit ratings of AGL Resources counterparties or competitors; interest rate fluctuations; financial market conditions, including disruptions in the capital markets and lending environment; general economic conditions; uncertainties about environmental issues and the related impact of such issues, including AGL Resources environmental remediation plans; the impact of AGL Resources depreciation study for Northern Illinois Gas Company and related legislation; the impact of changes in weather, including climate change, on the temperature-sensitive portions of AGL Resources business; the impact of natural disasters, such as hurricanes, on the supply and price of natural gas and on AGL Resources cargo shipping business; acts of war or terrorism; the outcome of litigation; and other factors discussed in AGL Resources filings with the SEC.

There also may be other factors that we do not anticipate or that we do not recognize are material that could cause results to differ materially from expectations.

Forward-looking statements speak only as of the date they are made. AGL Capital, AGL Resources and the trust expressly disclaim any obligation to update or revise any forward-looking statement, whether as a result of future events, new information or otherwise, except as required by law.

**AGL RESOURCES INC.**

AGL Resources is an Atlanta-based energy services holding company with operations in natural gas distribution, retail operations, wholesale services, midstream operations and cargo shipping. AGL Resources serves approximately 4.5 million utility customers through its regulated distribution subsidiaries in seven states. The company also serves approximately 630,000 retail energy customers and approximately 1.2 million customer service contracts through its SouthStar Energy Services joint venture and Pivotal Home Solutions, which market natural gas and related home services. Other non-utility businesses include asset management for natural gas wholesale customers through Sequent Energy Management, ownership and operation of natural gas storage facilities, and ownership of Tropical Shipping, one of the largest containerized cargo carriers serving the Bahamas and Caribbean region. AGL Resources is a member of the S&P 500 Index.

The principal executive office of AGL Resources is located at Ten Peachtree Place N.E., Atlanta, Georgia 30309, and its telephone number is (404) 584-4000.

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**AGL CAPITAL CORPORATION**

AGL Capital Corporation is a wholly owned subsidiary of AGL Resources. AGL Capital was established to provide for the ongoing financing needs of AGL Resources through a commercial paper program, the issuance of various debt and hybrid securities and other financing arrangements. The principal address of AGL Capital is 2215-B Renaissance Drive, Las Vegas, Nevada 89119, and its telephone number is (702) 967-2442.

**AGL CAPITAL TRUST II**

The trust is a statutory trust formed under Delaware law pursuant to a trust agreement, signed by AGL Capital, as depositor of the trust, the property trustee, the Delaware trustee and the administrative trustees, each as defined below, and the filing of a certificate of trust with the Delaware Secretary of State. The trust agreement of the trust will be amended and restated in its entirety before the issuance of trust preferred securities by the trust. We will refer in this prospectus to the trust agreement, as so amended and restated, as the trust agreement. The trust agreement will be qualified as an indenture under the Trust Indenture Act of 1939, as amended, or the Trust Indenture Act.

The trust exists for the exclusive purposes of:

issuing trust preferred securities and common securities representing undivided beneficial interests in the assets of such trust;

investing the gross proceeds of the sale of trust preferred securities and common securities, collectively referred to in this prospectus as the trust securities, in junior subordinated debt securities; and

engaging only in those activities necessary or incidental thereto.

AGL Resources will directly or indirectly own all of the common securities of the trust. The common securities of the trust rank equally with the trust preferred securities of the trust. The trust will make payment on its trust preferred securities pro rata, except that upon an event of default under the trust agreement, the rights of the holders of the common securities to payment in respect of distributions and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the trust preferred securities. AGL Capital will acquire common securities of the trust in an aggregate liquidation amount equal to at least three percent of the total capital of the trust.

The trust's business and affairs will be conducted by its trustees, each of whom will be appointed by AGL Capital as holder of the common securities. The trustees will be The Bank of New York Mellon Trust Company, N.A., as the property trustee, BNY Mellon Trust of Delaware, as the Delaware trustee, and two individual trustees, who are referred to as the administrative trustees and who are employees or officers of or affiliated with AGL Capital. The Bank of New York Mellon Trust Company, N.A., as property trustee, will act as sole trustee under the trust agreement for purposes of compliance with the Trust Indenture Act. The Bank of New York Mellon Trust Company, N.A. also will act as indenture trustee under an indenture among AGL Capital, AGL Resources and The Bank of New York Mellon Trust Company, N.A. relating to the junior subordinated debentures. See *Description of Junior Subordinated Debentures*.

If an event of default under the trust agreement has occurred and is continuing, the holder of the common securities of the trust, or the holders of a majority in liquidation amount of the trust preferred securities of the trust, will be entitled to appoint, remove or replace the property trustee and/or the Delaware trustee. The right to vote to appoint, remove or replace the administrative trustees is vested exclusively in the holder of the common securities, and in no event will the holders of trust preferred securities have that right.

Unless otherwise specified in the applicable prospectus supplement, the trust has a term of 40 years, but may be dissolved earlier as provided in the trust agreement.

AGL Capital will pay all fees and expenses related to the trust and the offering of trust preferred securities.

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**FINANCIAL STATEMENTS OF AGL CAPITAL AND THE TRUST AND ACCOUNTING TREATMENT**

There are no separate financial statements of AGL Capital and the trust in this prospectus. We do not believe such financial statements would be helpful because:

AGL Capital and the trust are wholly owned subsidiaries of AGL Resources, and the financial information of AGL Capital and any notes payable to the trust are included with the consolidated financial statements and financial information of AGL Resources, which is filed under the Exchange Act.

AGL Capital and the trust do not have any independent operations other than providing for the ongoing financing needs of AGL Resources.

The obligations of AGL Capital and the trust will be fully and unconditionally guaranteed by AGL Resources. AGL Capital and the trust are not, and will not become, subject to the information reporting requirements of the Exchange Act.

**RISK FACTORS**

Investing in our securities involves risks. You should carefully consider any specific risks discussed or incorporated by reference in the applicable prospectus supplement, together with all other information contained in the prospectus supplement or incorporated by reference in this prospectus. You should also consider the risks, uncertainties and assumptions discussed under the caption Risk Factors included in our most recent Annual Report on Form 10-K incorporated by reference in this prospectus, and which may be amended, supplemented or superseded from time to time by other reports we file with the SEC in the future.

**USE OF PROCEEDS**

Unless otherwise indicated in the prospectus supplement, we will use the net proceeds we receive from the sale of the securities described in this prospectus for general corporate purposes, among other things. We may invest funds not immediately required for such purposes in short-term investment grade securities. The amount and timing of sales of the securities described in this prospectus will depend on market conditions and the availability of other funds.

**RATIO OF EARNINGS TO FIXED CHARGES**

Our ratio of earnings to fixed charges for the six months ended June 30, 2013 and the five most recently completed fiscal years is as follows:

	<b>Six Months Ended</b>		<b>Year Ended December 31,</b>			
	<b>June 30, 2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Ratio of Earnings to Fixed Charges	4.28x	3.21x	3.05x	4.00x	4.08x	3.73x

For purposes of computing the ratio of earnings to fixed charges, earnings consist of the sum of income from continuing operations before income taxes and fixed charges, as discussed below, less capitalized interest and noncontrolling interest included in income from continuing operations before income taxes. Fixed charges consist of interest incurred, whether expensed or capitalized, including amortization of debt issuance costs, if applicable, and the portion of rent expense deemed to represent interest. Our ratio of earnings to combined fixed charges and preferred stock dividends for the periods indicated above is the same as our ratio of earnings to fixed charges set forth above because we had no shares of preferred stock outstanding during the periods indicated and currently have no shares of preferred stock outstanding.



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**DESCRIPTION OF DEBT SECURITIES**

The debt securities will be issued by AGL Capital under an indenture dated as of February 20, 2001, as supplemented and modified, as necessary, among AGL Capital, AGL Resources and The Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A., a successor in interest to The Bank of New York), as trustee. The indenture provides for the issuance from time to time of debt securities in an unlimited dollar amount and an unlimited number of series. We also may sell hybrid securities that combine certain features of the debt securities and other securities described in this prospectus, or convertible securities that contain some features of the debt securities described below and that are convertible into one or more other securities described in this prospectus. The debt securities will be guaranteed by AGL Resources under the guarantees described below.

The following description of the terms of the debt securities and the guarantees summarizes the material terms that will apply to the debt securities and the guarantees. The description is not complete, and we refer you to the indenture, a copy of which is an exhibit to the registration statement of which this prospectus is a part. For your reference, in several cases below, we have noted the section in the indenture that the paragraph summarizes. The referenced section of the indenture and the definitions of capitalized terms are incorporated by reference in the following summary.

Prospective purchasers of debt securities should be aware that special United States federal income tax, accounting and other considerations may be applicable to instruments such as the debt securities. Debt securities may be issued as Original Issue Discount Securities (as defined below). The special United States federal income tax and other considerations applicable to Original Issue Discount Securities will be described in detail in the applicable prospectus supplement or term sheet relating to an issue of such debt securities. Original Issue Discount Security generally means any debt security that (i) is issued at a price lower than its principal amount, (ii) does not require the payment of interest in cash or property (other than debt instruments of the issuer) at least annually throughout the term of the debt security or (iii) provides for interest that is below market rates. An Original Issue Discount Security provides that, upon acceleration of its maturity, an amount less than its principal amount will become due and payable. If a debt security is an Original Issue Discount Security, a portion of its principal amount may be treated as original issue discount. A holder of an Original Issue Discount Security generally must accrue original issue discount over the life of the debt security and generally is taxable on such accrued original issue discount as ordinary income similar to interest even if such holder is on the cash method of accounting. This means that a holder of an Original Issue Discount Security may be required to report and pay tax on original issue discount income before such holder receives the cash that corresponds to that income.

**General**

The indenture does not limit the aggregate principal amount of the debt securities that may be issued thereunder and provides that the debt securities may be issued from time to time in series. The debt securities will be unsecured and will rank on parity with all of our other unsecured and unsubordinated indebtedness, unless otherwise provided in a prospectus supplement.

The prospectus supplement and any related pricing supplement will describe certain terms of the offered debt securities, including:

the title of the offered debt securities;

any limit on the aggregate principal amount of the offered debt securities;

the person or persons to whom interest on the offered debt securities shall be payable on any interest payment date if other than the person in whose name the offered debt security is registered on the regular record date;

the date or dates on which the principal of the offered debt securities is payable;

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the rate or rates (or manner in which interest is to be determined) at which the offered debt securities will bear interest, if any, and the date from which such interest, if any, will accrue and the regular record date for the interest payable on the offered debt securities on any interest payment date;

the periods within which, the prices at which and the terms and conditions upon which the offered debt securities may be redeemed, in whole or in part, at our option;

our obligation, if any, to redeem or purchase the offered debt securities pursuant to any sinking fund or analogous provision or at the option of the holder, the period or periods within which, and the price or prices at which and the terms and conditions upon which such offered debt securities will be redeemed or purchased;

whether the offered debt securities are to be issued in whole or in part in the form of one or more global notes and, if so, the identity of the depository for such global notes; and

any events of default (in addition to those specified in the indenture) or other terms and conditions with respect to the offered debt securities that are not inconsistent with the terms of the indenture.

Unless otherwise provided in the prospectus supplement or a pricing supplement, the debt securities will be issued only in fully registered form, without coupons, in denominations of \$1,000 or any integral multiple thereof.

One or more series of debt securities may be issued as discounted debt securities (bearing no interest or interest at a rate which, at the time of issuance, is below market rates) to be sold at a substantial discount below their stated principal amount. Special federal income tax and other considerations applicable thereto will be described in the prospectus supplement relating thereto.

The indenture provides that all debt securities of any one series need not be issued at the same time and that we may, from time to time, issue additional debt securities of a previously issued series. In addition, the indenture provides that we may issue debt securities with terms different from those of any other series of debt securities and, within a series of debt securities, terms, such as interest rate or manner in which interest is calculated, original issue date, redemption provisions and maturity date, may differ.

**Payment of Notes; Transfers; Exchanges**

Except as may be provided in the applicable prospectus supplement, interest, if any, on each debt security payable on each interest payment date will be paid to the person in whose name such debt security is registered as of the close of business on the regular record date relating to such interest payment date. However, if there has been a default in the payment of interest on any debt security, such defaulted interest may be payable to the holder of such debt security as of the close of business on a date selected by the trustee not more than 15 days and not less than 10 days prior to the date we propose for payment of such defaulted interest. (See Section 307.)

Principal of, and premium and interest, if any, on the debt securities will be payable at the office of the trustee designated for such purpose or at any paying agency we maintain for such purpose. We may appoint one or more paying agents and may remove any paying agent, all in our discretion. The applicable prospectus supplement will identify any paying agent appointed.

The transfer of the debt securities may be registered, and the debt securities may be exchanged for other debt securities of authorized denominations and of like tenor and aggregate principal amount at the office of the trustee designated for such purpose or at any paying agency we maintain for such purpose. We may appoint one or more additional security registrars or transfer agents and may remove any security registrar or transfer agent, all in our discretion. The applicable prospectus supplement will identify any additional security registrar or transfer agent appointed.

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No service charge will be made for any registration of transfer or exchange of the debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. We will not be required:

to issue, register the transfer of or exchange debt securities during the period of 15 days prior to giving any notice of redemption or

to issue, register the transfer of or exchange any debt security selected for redemption in whole or in part, except the unredeemed portion of any debt security being redeemed in part. (See Section 305.)

### **Redemption**

Any terms for the optional or mandatory redemption of the offered debt securities will be set forth in the applicable prospectus supplement. In accordance with the terms of the indenture, debt securities will be redeemable only upon notice, by mail, not less than 30 nor more than 60 days prior to the date fixed for redemption and, if less than all of the debt securities of any series are to be redeemed, the particular debt securities will be selected by the security registrar by such method as the trustee deems fair and appropriate. (See Sections 403 and 404.)

Any notice of optional redemption may state that such redemption shall be conditional upon the receipt by the trustee, on or prior to the date fixed for such redemption, of money sufficient to pay the principal of and premium and interest, if any, on such debt securities and that if such money has not been so received, such notice will be of no force or effect, and we will not be required to redeem such debt securities. (See Section 404.)

### **Events of Default**

The following are events of default under the indenture with respect to debt securities of any series:

failure to pay any interest on any debt security within 30 days after the same becomes due and payable;

failure to pay principal of or any premium on any debt security within three (3) business days of when due;

failure to perform, or breach of, any other covenant or warranty in the indenture (other than a covenant or warranty included in the indenture solely for the benefit of one or more series of debt securities other than that series), continued for 90 days after written notice to us by the trustee or by the holders of at least 25% in principal amount of the outstanding debt securities to us and the trustee as provided in the indenture;

certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization; and

any other event of default provided with respect to the debt securities of that series. (See Section 801.)

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

If an event of default (other than certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization) occurs and is continuing, either the trustee or the holders of at least 33% in aggregate principal amount of the outstanding debt securities of that series may declare the principal amount of all the outstanding debt securities of that series to be due and payable immediately; provided, however, that if such an event of default occurs and is continuing with respect to more than one series of debt securities, the trustee or the holders of not less than 33% in aggregate principal amount of the outstanding debt securities of all such series, considered as one class, may make such declaration of acceleration and not the holders of the debt securities of any of such series. (See Section 802.)



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The holders of a majority in aggregate principal amount of the outstanding debt securities of each series may, on behalf of all holders of the debt securities of that series, waive any past default under the indenture with respect to the debt securities of that series, except a default in the payment of principal or premium or interest, if any, or in respect of a provision of the indenture which cannot be amended or modified without the consent of the holder of each outstanding debt security of the series affected. (See Section 813.)

### **Remedies**

At any time after the declaration of acceleration with respect to the debt securities of any series has been made, but before a judgment or decree based on acceleration has been obtained, the event or events of default giving rise to such declaration of acceleration shall, without further act, be deemed to have been waived, and such declaration and its consequences shall, without further act, be deemed to have been rescinded and annulled if:

we have paid or deposited with the trustee a sum sufficient to pay:

- (1) all overdue interest on all debt securities of such series;
- (2) the principal of and premium, if any, on any debt securities of such series which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed hereof in such debt securities;
- (3) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such debt securities;
- (4) all amounts due to the trustee under the indenture; and

any other event or events of default with respect to the debt securities of such series, other than the nonpayment of the principal of the debt securities of such series which has become due solely by such declaration of acceleration, have been cured or waived as provided in the indenture. (See Section 802.)

The indenture provides that, subject to the duty of the trustee during the continuance of an event of default to act with the required standard of care, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders, unless such holders shall have offered to the trustee reasonable indemnity. Subject to such provisions for the indemnification of the trustee and subject to certain other limitations, the holders of a majority in aggregate principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceedings for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of that series; provided, however, that if an event of default occurs and is continuing with respect to more than one series of debt securities, the holders of a majority in aggregate principal amount of the outstanding debt securities of all such series, considered as one class, will have the right to make such direction, and not the holders of the debt securities of any one of such series; and provided, further, that:

such direction will not be in conflict with any rule of law or with the indenture and would not involve the trustee in personal liability in circumstances where reasonable indemnity could not be adequate and

the trustee may take any other action it deems proper which is not inconsistent with such direction. (See Section 812.)

The right of a holder of any debt security of such series to institute a proceeding with respect to the indenture is subject to the following conditions precedent:

the holder shall have previously given written notice to the trustee of a continuing event of default;

the holders of not less than a majority in aggregate principal amount of the outstanding securities of all series in respect to which an event of default shall have occurred and be continuing shall have made a written request to the trustee to institute proceedings in respect of the event of default;

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the holders shall have offered to the trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

the trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such proceedings; and

the trustee shall have not received direction inconsistent with the written request during the 60 day period by the holders of a majority in aggregate principal amount of the outstanding securities of all series in respect of which an event of default shall have occurred. (See Section 807.)

However, each holder has an absolute right to receive payment of principal and premium and interest, if any, when due and to institute suit for the enforcement of any such payment. (See Section 808.) The indenture provides that the trustee, within 90 days after the occurrence of any default thereunder with respect to the debt securities of a series, is required to give the holders of the indenture securities of such series notice of any default known to it, unless cured or waived; provided, however, that, except in the case of a default in the payment of principal or premium or interest, if any, on any debt securities of such series, the trustee may withhold such notice if the trustee determines that it is in the interest of such holders to do so; and provided, further, that in the case of an event of default of the character specified above in the third bullet point under *Events of Default*, no such notice shall be given to such holders until at least 75 days after the occurrence thereof. (See Section 902.)

The indenture requires us to annually furnish to the trustee a statement as to our performance of certain obligations and as to any default in such performance. The indenture also requires us to notify the trustee of any event of default within ten days after certain of our officers obtain actual knowledge thereof. (See Section 606.)

## **Modification, Waiver and Amendment**

Certain modifications and amendments of the indenture may be made by us and the trustee without the consent of the holders, including those which:

evidence the assumption by any of our successors of our obligations under the indenture or with respect to the debt securities;

add to our covenants for the benefit of the holders or surrender any of our rights under the indenture;

add any events of default, in addition to those specified in the indenture, with respect to any series of outstanding debt securities;

change or eliminate any provision of the indenture or add any new provision to the indenture; provided, however, that if such change, elimination or addition will adversely affect the interests of holders of debt securities of any series in any material respect, such change, elimination or addition will become effective with respect to such series only when there is no debt security of such series remaining outstanding under the indenture;

provide collateral security for the debt securities;

establish the form or terms of debt securities of any series;

evidence the appointment of a separate or successor trustee with respect to the debt securities of one or more series and to add to or change any of the provisions of the indenture as shall be necessary to provide for or to facilitate the administration of the trusts under the indenture by more than one trustee;

provide for the procedures required to permit the utilization of a noncertificated system of registration for any series of debt securities;

subject to certain conditions, change the place where debt securities may be transferred, exchanged or paid; or



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cure any ambiguity or inconsistency or make any other provisions with respect to matters and questions arising under the indenture, provided such provisions shall not adversely affect the interests of the holders of debt securities of any series in any material respect. (See Section 1201.)

Without limiting the generality of the foregoing, if the Trust Indenture Act is amended after the date of the indenture to require changes to the indenture or the incorporation therein of additional provisions or permit changes to, or the elimination of, provisions which, at the date of the indenture or at any time thereafter, are required by the Trust Indenture Act to be contained in the indenture, the trustee and we may, without the consent of any holders, enter into one or more supplemental indentures to effect or reflect any such change, incorporation or elimination.

Modifications and amendments of the indenture may be made by the trustee and us with the consent of the holders of not less than a majority in aggregate principal amount of the outstanding debt securities of all series then outstanding under the indenture and affected by such modification or amendment, considered as one class; provided, however, that no such modification or amendment may, without the consent of the holders of each outstanding debt security affected thereby:

change the stated maturity of the principal of, or any installment of principal of or interest, if any, on, any debt security;

reduce the principal amount of, or premium or interest, if any, on, any debt security;

reduce the amount of principal of an original issue discount debt security payable upon acceleration of the maturity thereof;

change the currency in which any principal of, or premium or interest, if any, on, any debt security is payable;

impair the right to institute suit for the enforcement of any payment on or with respect to any debt security;

reduce the percentage in principal amount of the outstanding debt securities of any series, the consent of whose holders is required for modification or amendment of the indenture or for waiver of compliance with certain provisions of the indenture or for waiver of certain defaults;

reduce the requirements for quorum or voting; or

amend provisions of the indenture relating to waivers of covenants affecting the amount of securities that may be authenticated and delivered, waivers of past defaults and supplemental indentures requiring the consent of the holders.

A supplemental indenture which changes or eliminates any covenant or other provision of the indenture which has expressly been included solely for the benefit of one or more particular series of debt securities, or which modifies the rights of the holders of debt securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under the indenture of the holders of any other debt securities. (See Section 1202.)

## **Covenants; Consolidation, Merger and Sale of Assets**

We will cause (or, with respect to property owned in common with others, make reasonable effort to cause) all of our properties used or useful in the conduct of our business to be maintained and kept in good condition, repair and working order and will cause (or, with respect to property owned in common with others, make reasonable effort to cause) all necessary repairs, renewals, replacements, betterments and improvements thereof to be made, all as, in our judgment, may be necessary so that our business may be properly conducted; provided, however, that the foregoing will not prevent us from discontinuing, or causing the discontinuance of, the operation and maintenance of any of our properties if such discontinuance is, in our judgment, desirable in the conduct of our business and will not adversely affect the interests of the holders of debt securities of any series in any material respect. (See Section 605.)



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Subject to the provisions described in the next paragraph, we will do or cause to be done all things necessary to preserve and keep in full force and effect our corporate existence and rights (charter and statutory) and our franchises; provided, however, that we will not be required to preserve any such right or franchise if, in our judgment, preservation thereof is no longer desirable in the conduct of our business and the failure to preserve any such right or franchise will not adversely affect the interests of the holders of debt securities of any series in any material respect. (See Section 604.)

We may, without the consent of the holders of any of the outstanding debt securities under the indenture, merge into, consolidate with, or sell, lease or convey all or substantially all of our assets to a successor company organized under the laws of the United States, any state thereof or the District of Columbia, provided, however, that such successor company assumes our obligations on the debt securities and under the indenture, that after giving effect to the transaction no event of default, and no event which, after notice or lapse of time or both would become an event of default, will have occurred and be continuing, and that we will have delivered to the trustee an opinion of counsel and an officer's certificate as provided in the indenture. (See Section 1101.) The term substantially all when used in reference to the sale, lease or conveyance of our assets has not been interpreted under governing law to represent a specific quantitative test as applied to us and, as a consequence, holders may not be able to determine when we have entered into a transaction that sells, leases or conveys substantially all of our assets. As a result of this uncertainty, it may be difficult for the holders to determine whether such sale, lease or conveyance has occurred and whether to declare an event of default and exercise acceleration rights. Further, there could be a disagreement between the holders and us over whether such a sale, lease or conveyance of our assets qualifies as substantially all of our assets. To the extent that the holders elect to exercise their rights under the indenture resulting from what the holders deem to be a sale, lease or conveyance of substantially all of our assets and we contest such an election, there can be no assurances as to how a court would interpret the meaning of substantially all of our assets.

## **Satisfaction and Discharge**

We may terminate our obligations (except for certain specified surviving obligations described below) under the indenture with respect to debt securities of any series on the terms and subject to the conditions contained in the indenture, by depositing in trust with the trustee cash or eligible obligations (as defined below) (or a combination thereof) sufficient to pay the principal of and premium, if any, and interest, if any, due and to become due on the debt securities of such series on or prior to their maturity or redemption date in accordance with the terms of the indenture and such debt securities. (See Section 701.)

The indenture, with respect to any and all series of debt securities (except for certain specified surviving obligations) will be discharged and cancelled upon the satisfaction of certain conditions, including:

the payment in full of the principal of (and premium, if any) and interest on all of the debt securities of such series or the deposit with the trustee of an amount in cash or eligible obligations (or a combination thereof) sufficient for such payment or redemption, in accordance with the indenture;

the payment by us of all other sums required under the indenture; and

the delivery of a certificate by us to the trustee stating that all conditions relating to the satisfaction and discharge of the indenture have been complied with. (See Section 702.)

Eligible obligations include:

with respect to debt securities denominated in United States dollars, government obligations (which include direct obligations of, or obligations unconditionally guaranteed by, the United States of America entitled to the benefit of the full faith and credit thereof and certificates, depositary receipts or other instruments which evidence a direct ownership interest in such obligations or in any specific interest or principal payments due in respect thereof); and

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with respect to debt securities denominated in a currency other than United States dollars or in a composite currency, such other obligations or instruments as shall be specified with respect to such debt securities, as contemplated by the indenture.

Notwithstanding the satisfaction and discharge of our obligations under the indenture as described above, the following obligations of AGL Capital and the trustee in respect of our debt securities shall survive:

the obligation to execute, authenticate and deliver temporary securities (Section 304);

the obligation to maintain a security register to provide for the registration of the debt securities and the registration of their transfer and exchange (Section 305);

the obligation to execute, authenticate and deliver debt securities in exchange for mutilated securities surrendered to the trustee or in exchange for lost and stolen debt securities (Section 306);

the obligation to give proper notice of redemption (Section 404);

the obligation to give notice of a sinking fund payment date for the debt securities (Section 503);

the obligation to maintain an office or agency where the debt securities may be surrendered for registration of transfer or exchange and where notices and demands to or from the Company may be served (Section 602);

the obligation for money for debt securities payments to be held in trust (Section 603);

obligations regarding satisfaction and discharge of the debt securities and the indenture and the application of trust money (Article Seven);

obligations regarding compensation and reimbursement and indemnification of the trustee (Section 907); and

the obligation of the trustee relating to the appointment of an authenticating agent (Section 914).

In order to terminate our obligations in respect of any series of debt securities, we must deliver to the trustee an opinion of counsel to the effect that the holders of that series of securities will not recognize income, gain or loss for federal income tax purposes as a result.

For federal income tax purposes, any deposit contemplated by the first two paragraphs of this section may be treated as a taxable exchange of the related debt securities for an issue of obligations of the trust or a direct interest in the cash and securities held in the trust. In that case, holders of such debt securities would recognize gain or loss as if the trust obligations or the cash or securities deposited, as the case may be, had actually been received by them in exchange for their debt securities. Such holders thereafter would be required to include in income a share of the income, gain or loss of the trust. The amount so required to be included in income could be different from the amount that would be includable in the absence of such deposit. Prospective investors are urged to consult their own tax advisors as to the specific consequences to them of such deposit.

**Governing Law**

The debt securities and the indenture will be governed by and construed in accordance with the laws of the State of New York.

**Description of the Guarantees**

AGL Resources will fully and unconditionally guarantee to each holder of debt securities and to the trustee and its successors the due and punctual payment of the principal of and premium, if any, and interest, if any, on the debt securities. The guarantees apply whether the payment is due at the maturity date of the debt securities, on an interest payment date, or as a result of acceleration, an offer to purchase or otherwise. The guarantees include payment of interest on the overdue principal of and interest, if any, on the debt securities (if lawful) and all other obligations of AGL Capital under the indenture.

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The guarantees will remain valid even if the indenture is found to be invalid. AGL Resources is obligated under the guarantees to pay any guaranteed amount immediately after AGL Capital's failure to do so.

**Concerning the Trustee**

The indenture and Section 311 of the Trust Indenture Act contain limitations on the right of the trustee, should it become our creditor, to obtain payment of claims, or to realize on property received in respect of any such claim as security or otherwise in cases where the trustee is, or has become, our direct or indirect creditor within three months prior to or subsequent to an event of default. In such cases, unless and until such event of default is cured, the trustee must set apart and hold as a special account for the benefit of the trustee and the holders of the debt securities, an amount equal to any and all reductions in the amount due and owing to the trustee as a creditor calculated after the beginning of the three month period; and all property received by the trustee in respect of any claim as a creditor after the beginning of the three month period, or an amount equal to the proceeds of any such property, if the property has been disposed of. The trustee will be permitted to engage in other transactions with us; provided, however, that if the trustee acquires any conflicting interest, it must eliminate such conflict or resign.

The indenture provides that, in case an event of default shall occur and be continuing, the trustee will be required to use the degree of care and skill of a prudent person in the conduct of his or her own affairs in the exercise of its power.

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**DESCRIPTION OF TRUST PREFERRED SECURITIES**

**General**

The trust preferred securities will be issued pursuant to the terms of a trust agreement and represent preferred undivided beneficial interests in the assets of the trust. The holders of the trust preferred securities will be entitled to a preference over the holders of the trust's common securities in certain circumstances with respect to distributions and amounts payable on redemption of the trust preferred securities or liquidation of the trust. See *Subordination of Common Securities*. The trust agreement will be qualified under the Trust Indenture Act. The following description is a summary of the material aspects of the trust preferred securities, the common securities and the trust agreement.

The trust agreement authorizes the trustees, on behalf of the trust, to issue trust preferred securities, which represent preferred undivided beneficial interests in the assets of the trust, and common securities, which represent common undivided beneficial interests in the assets of the trust. All of the common securities will be owned by AGL Capital. The face value, or liquidation amount, for the trust preferred securities will be limited to a certain dollar amount established at the time that the specific trust preferred securities are authorized. The trust preferred securities will rank equal in priority, and payments will be made thereon pro rata, with the common securities except as described under *Subordination of Common Securities*. Legal title to the junior subordinated debentures will be held by the property trustee in trust for the benefit of the holders of the trust and the trust preferred securities and common securities. The trust preferred securities guarantee will not guarantee payment of distributions or amounts payable on redemption of the trust preferred securities or liquidation of the trust when the trust does not have funds on hand legally available for such payments. See *Description of Trust Preferred Securities Guarantee*.

**Distributions**

Distributions on the trust preferred securities will be cumulative and will be payable on the dates payable to the extent the trust has funds available for the payment of distributions. The amount of distributions payable for any period will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which distributions are payable on the trust preferred securities is not a business day, payment of the distribution payable on such date will be made on the next succeeding day that is a business day (and without any interest or other payment in respect to any such delay), in each case with the same force and effect as if made on such date. A business day means any day other than a Saturday or a Sunday, or a day on which banking institutions in the City of New York, New York or Atlanta, Georgia are authorized or required by law or executive order to remain closed.

So long as no debenture event of default shall have occurred and be continuing, AGL Capital will have the right under the indenture to defer the payment of interest on the junior subordinated debentures at any time or from time to time for a period not exceeding 20 consecutive quarters with respect to each such extended interest payment period, provided that no extended interest payment period may extend beyond the stated maturity date. Upon any election, quarterly distributions on the trust preferred securities will be deferred by the trust during the extended interest payment period. Distributions to which holders of the trust preferred securities are entitled during the extended interest payment period will accumulate additional distributions at a specific rate per annum, compounded quarterly from the relevant distribution date. The term distributions, as used herein, shall include any such additional distributions.

Prior to the termination of any extended interest payment period, AGL Capital may further extend such extended interest payment period, provided that such extension does not cause the extended interest payment period to exceed 20 consecutive quarters or to extend beyond the stated maturity date. Upon the termination of any extended interest payment period and the payment of all amounts then due, and subject to the foregoing limitations, AGL Capital may elect to begin a new extended interest payment period. AGL Capital must give the

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property trustee, the administrative trustees and the debenture trustee notice of its election of an extended interest payment period at least one business day prior to the earlier of (i) the date the distributions on the trust preferred securities would have been payable except for the election to begin an extended interest payment period or (ii) the date the administrative trustees are required to give notice to any securities exchange or quotation system or to holders of such trust preferred securities of the record date or the date such distributions are payable but in any event not less than one business day prior to such record date. There is no limitation on the number of times that AGL Capital may elect to begin an extended interest payment period. See *Description of Junior Subordinated Debentures Option to Extend Interest Payment Date*.

During any extended interest payment period, neither AGL Resources nor AGL Capital may:

declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of its capital stock (which includes common and preferred stock);

make any payment of principal, interest or premium, if any, on or repay, repurchase or redeem any of its debt securities that rank equal in priority with or junior in right of payment to, with respect to AGL Capital, the junior subordinated debentures or with respect to AGL Resources, debt that is subordinated to its senior indebtedness; or

make any guarantee payments with respect to any guarantee of the debt securities of any of their respective subsidiaries if such guarantees rank equal in priority with or junior in right of payment to, with respect to AGL Capital, the junior subordinated debentures or with respect to AGL Resources, debt that is subordinated to its senior indebtedness (other than (a) dividends or distributions in shares of, or options, warrants or rights to subscribe for or purchase shares of, common stock, (b) any declaration of a dividend in connection with the implementation of a stockholders' rights plan, or the issuance of stock under any such plan in the future, or the redemption or repurchase of any such rights pursuant thereto, (c) payments under the trust preferred securities guarantee and the junior subordinated debenture guarantee, (d) the purchase of fractional shares resulting from a reclassification of capital stock or the exchange or conversion of one class, or series of capital stock for another class or series of capital stock, and (e) the purchase of fractional interests in shares of capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged).

The revenue of the trust available for distribution to holders of the trust preferred securities and common securities will be limited to payments under the junior subordinated debentures in which the trust will invest the proceeds from the issuance and sale of the trust preferred securities. See *Description of Junior Subordinated Debentures General*. If AGL Capital does not make interest payments on the junior subordinated debentures, the trust will not have funds available to pay distributions on the trust preferred securities and common securities. AGL Resources will guarantee on a junior subordinated basis the payment of the principal (and premium, if any) and interest on the junior subordinated debentures, except that no payment of interest will be made under the debenture guarantee for any period during which AGL Capital has exercised its right to defer interest payments on the junior subordinated debentures.

### **Redemption**

Upon the repayment on the stated maturity date or prepayment prior to the stated maturity date of the junior subordinated debentures, the proceeds from such repayment or prepayment shall be applied by the property trustee to redeem a like amount (as defined below) of the trust securities, upon not less than 10 nor more than 60 days' notice of a date of redemption, at the applicable redemption price, which shall be equal to:

in the case of the repayment of the junior subordinated debentures on the stated maturity date, the maturity redemption price (equal to the principal of, and accrued interest on, the junior subordinated debentures);

in the case of the optional prepayment of the junior subordinated debentures prior to a date to be specified in the trust agreement upon the occurrence and continuation of a tax event or an investment company act event, the special event redemption price (equal to the special event prepayment price in respect of the junior subordinated debentures); and





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in the case of the optional prepayment of the junior subordinated debentures on or after a date to be specified in the trust agreement, the optional redemption price (equal to the optional prepayment price in respect of the junior subordinated debentures). See *Description of Junior Subordinated Debentures Optional Redemption* and *Special Event Redemption*.

Like amount means:

with respect to a redemption of the trust preferred securities, trust preferred securities having a liquidation amount equal to the principal amount of junior subordinated debentures to be paid in accordance with their terms and

with respect to a distribution of junior subordinated debentures upon the liquidation of the trust, junior subordinated debentures having a principal amount equal to the liquidation amount of the trust preferred securities of the holder to whom such junior subordinated debentures are distributed.

The trust preferred securities and the common securities will be mandatorily redeemed in whole (but not in part) in the event that AGL Capital redeems the junior subordinated debentures in whole (but not in part). For information regarding AGL Capital's special redemption rights relating to the junior subordinated debentures, please see *Description of Junior Subordinated Debentures Special Event Redemption*.

**Redemption Procedures**

If applicable, trust preferred securities shall be redeemed at the applicable redemption price with the proceeds from the contemporaneous repayment or prepayment of the junior subordinated debentures. Any redemption of trust preferred securities shall be made and the applicable redemption price shall be payable on the redemption date only to the extent that the trust has funds legally available for the payment of such applicable redemption price.

If the trust gives a notice of redemption in respect of the trust preferred securities, then, by 12:00 noon, New York City time, on the redemption date, to the extent funds are legally available, with respect to the trust preferred securities held by DTC or its nominees, the property trustee will deposit irrevocably with DTC funds sufficient to pay the applicable redemption price. See *Form, Denomination, Book-Entry Procedures and Transfer*. With respect to the trust preferred securities held in certificated form, the property trustee, to the extent funds are legally available, will irrevocably deposit with the paying agent for the trust preferred securities funds sufficient to pay the applicable redemption price and will give such paying agent irrevocable instructions and authority to pay the applicable redemption price to the holders thereof upon surrender of their certificates evidencing the trust preferred securities. See *Payment and Paying Agency*. Notwithstanding the foregoing, distributions payable on or prior to the redemption date shall be payable to the holders of such trust preferred securities on the relevant record dates for the related distribution dates. If notice of redemption shall have been given and funds deposited as required, then upon the date of such deposit, all rights of the holders of the trust preferred securities will cease, except the right of the holders of the trust preferred securities to receive the applicable redemption price, but without interest on such redemption price, and the trust preferred securities will cease to be outstanding. In the event that any redemption date of trust preferred securities is not a business day, then the applicable redemption price payable on such date will be paid on the next succeeding day that is a business day (and without any interest or other payment in respect of any such delay), except that, if such business day falls in the next calendar year, such payment will be made on the immediately preceding business day. In the event that payment of the applicable redemption price is improperly withheld or refused and not paid either by the trust or by AGL Resources pursuant to the trust preferred securities guarantee as described under *Description of Trust Preferred Securities Guarantee*, distributions on trust preferred securities will continue to accumulate at the then applicable rate, from the redemption date originally established by the trust to the date such applicable redemption price is actually paid, in which case the actual payment date will be the redemption date for purposes of calculating the applicable redemption price.

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Subject to applicable law (including, without limitation, United States federal securities law), we may at any time and from time to time purchase outstanding trust preferred securities by tender, in the open market or by private agreement.

Notice of any redemption will be mailed at least 10 days but not more than 60 days prior to the redemption date to each holder of trust preferred securities at its registered address. Unless AGL Resources defaults in payment of the applicable prepayment price on, or in the repayment of, the junior subordinated debentures, on and after the redemption date distributions will cease to accrue on the trust preferred securities called for redemption.

**Liquidation of the Trust and Distribution of Junior Subordinated Debentures**

AGL Capital will have the right at any time to terminate the trust and cause the junior subordinated debentures to be distributed to the holders of the trust securities in liquidation of the trust. Such right is subject to AGL Capital having received an opinion of counsel to the effect that such distribution will not be a taxable event to holders of trust preferred securities.

The trust shall automatically terminate upon the first to occur of:

certain events of bankruptcy, dissolution or liquidation of AGL Capital;

the distribution of a like amount of the junior subordinated debentures to the holders of the trust preferred securities, if AGL Capital, as sponsor, has given written direction to the property trustee to terminate the trust (which direction is optional and, except as described above, wholly within the discretion of AGL Capital, as sponsor);

redemption of all of the trust preferred securities as described under *Redemption*;

expiration of the term of the trust; and

the entry of an order for the dissolution of the trust by a court of competent jurisdiction.

If a termination occurs as described in the first, second, fourth or fifth bullet point above, the trust shall be liquidated by the trustees as soon as practicable after the receipt of any required regulatory approval by distributing, after satisfaction of liabilities to creditors of the trust as provided by applicable law, to the holders of the trust preferred securities and common securities a like amount of the junior subordinated debentures, unless such distribution is determined by the property trustee not to be practicable, in which event such holders will be entitled to receive out of the assets of the trust legally available for distribution to holders, after satisfaction of liabilities to creditors of the trust as provided by applicable law, cash in an amount equal to the aggregate of the liquidation amount plus accumulated and unpaid distributions thereon to the date of payment. If such liquidation distribution can be paid only in part because the trust has insufficient assets on hand legally available to pay in full the aggregate liquidation distribution, then the amounts payable directly by the trust on the trust preferred securities and the common securities shall be paid on a pro rata basis, except that if a debenture event of default has occurred and is continuing, the trust preferred securities shall have a priority over the common securities. See *Subordination of Common Securities*.

After the liquidation date is fixed for any distribution of junior subordinated debentures to holders of the trust preferred securities:

the trust preferred securities will no longer be deemed to be outstanding;

each registered global certificate, if any, representing trust preferred securities and held by DTC or its nominee will receive a registered global certificate or certificates representing the junior subordinated debentures to be delivered upon such distribution; and

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any certificates representing trust preferred securities not held by DTC or its nominee will be deemed to represent junior subordinated debentures having a principal amount equal to the liquidation amount

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of such trust preferred securities, and bearing accrued and unpaid interest in an amount equal to the accumulated and unpaid distributions on such trust preferred securities until such certificates are presented to the administrative trustees or their agent for cancellation, whereupon AGL Capital will issue to such holder, and the debenture trustee will authenticate, a certificate representing such junior subordinated debentures.

There can be no assurance as to the market prices for the trust preferred securities or the junior subordinated debentures that may be distributed in exchange for the trust preferred securities if a dissolution and liquidation of the trust were to occur. Accordingly, the trust preferred securities that an investor may purchase, or the junior subordinated debentures that the investor may receive on dissolution and liquidation of the trust, may trade at a discount to the price that the investor paid to purchase the trust preferred securities offered hereby.

### **Subordination of Common Securities**

Payment of distributions on, and the redemption price of, the trust preferred securities and common securities, as applicable, shall be made pro rata based on the liquidation amount of the trust preferred securities and common securities; provided, however, that if on any distribution date or redemption date an Event of Default shall have occurred and be continuing, no payment of any distribution on, or applicable redemption price of, any of the common securities, and no other payment on account of the redemption, liquidation or other acquisition of the common securities, shall be made unless payment in full in cash of all accumulated and unpaid distributions on all of the outstanding trust preferred securities for all distribution periods terminating on or prior thereto, or in the case of payment of the applicable redemption price the full amount of such redemption price, shall have been made or provided for, and all funds available to the property trustee shall first be applied to the payment in full in cash of all distributions on, or redemption price of, the trust preferred securities then due and payable.

In the case of any event of default, AGL Capital as holder of the common securities will be deemed to have waived any right to act with respect to such Event of Default until the effect of such event of default shall have been cured, waived or otherwise eliminated. Until any such event of default has been so cured, waived or otherwise eliminated, the property trustee shall act solely on behalf of the holders of the trust preferred securities and not on behalf of AGL Capital as holder of the common securities, and only the holders of the trust preferred securities will have the right to direct the property trustee to act on their behalf.

### **Events of Default; Notice**

The occurrence of a debenture event of default (see *Description of Junior Subordinated Debentures Junior Subordinated Debenture Events of Default* ) constitutes an event of default under the trust agreement. We refer to such an event as a *trust enforcement event*. In addition, the following constitutes an event of default under the trust agreement:

default by the trust or the property trustee in the payment of any distribution when it becomes due and payable, and continuation of such default for a period of 30 days;

default by the trust or the property trustee in the payment of any redemption price of any trust preferred security when it becomes due and payable; or

default in the performance, or breach, in any material respect, of any other covenant or warranty of the trustees in the trust agreement, and continuation of such default or breach for a period of 90 days after notice to the defaulting trustee or trustees.

Within 90 days after the occurrence of any event of default actually known to the property trustee, the property trustee shall transmit notice of such event of default to the holders of the trust preferred securities, the administrative trustees and AGL Capital, as sponsor, unless such event of default shall have been cured or waived.

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If a debenture event of default has occurred and is continuing, the trust preferred securities shall have a preference over the common securities as described under *Liquidation of the Trust and Distribution of Junior Subordinated Debentures* and *Subordination of Common Securities*.

For more information on events of default under the indenture, see *Description of Junior Subordinated Debentures Junior Subordinated Debenture Events of Default*. Upon the occurrence and continuance of a trust enforcement event, the property trustee, as the sole holder of the junior subordinated debentures, will have the right under the indenture to declare the principal amount of the junior subordinated debentures due and payable.

If the property trustee fails to enforce its rights under the junior subordinated debentures, the holders of trust preferred securities may, to the extent permitted by applicable law, institute a legal proceeding against AGL Capital to enforce the property trustee's rights under the junior subordinated debentures and the indenture without first instituting legal proceedings against the property trustee or any other person. In addition, if a trust enforcement event is due to AGL Capital's failure to pay interest or principal on the junior subordinated debentures when due, then the registered holder of trust preferred securities may institute a direct action on or after the due date directly against AGL Capital for enforcement of payment to that holder of the principal of or interest on the junior subordinated debentures having a principal amount equal to the total liquidation amount of that holder's trust preferred securities. In connection with such a direct action, we will have the right to set off any payment to that holder by us.

### **Removal of Trustees**

Unless a debenture event of default shall have occurred and be continuing, any trustee may be removed at any time by the holders of the common securities. If a debenture event of default has occurred and is continuing, the property trustee and the Delaware trustee may be removed at such time by the holders of a majority in liquidation amount of the outstanding trust preferred securities. In no event will the holders of the trust preferred securities have the right to vote to appoint, remove or replace the administrative trustees, which voting rights are vested exclusively in AGL Capital as the holder of the common securities. No resignation or removal of a property trustee or a Delaware trustee and no appointment of a successor trustee shall be effective until a written acceptance of appointment has been executed by the successor trustee and delivered to the administrative trustees and AGL Capital, as sponsor, in accordance with the provisions of the trust agreement.

### **Merger or Consolidation of Trustees**

Any corporation into which the property trustee or the Delaware trustee or any administrative trustee that is not a natural person, may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such property trustee, Delaware trustee or administrative trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of such Delaware or property trustee, shall be the successor of such property trustee, Delaware trustee or administrative trustee under the trust agreement, provided such corporation shall be otherwise qualified and eligible.

### **Mergers, Consolidations, Amalgamations or Replacements of the Trust**

The trust may not merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to any corporation or other person, except as described below. The trust may, at the request of AGL Capital, as sponsor, with the consent of the administrative trustees but without the consent of the holders of the trust preferred securities, merge with or into, consolidate, amalgamate, or be replaced by or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to, a trust organized as such under the laws of any state; provided, that:

- such successor entity either (a) expressly assumes all of the obligations of the trust with respect to the trust preferred securities or
- (b) substitutes for the trust preferred securities other securities having

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substantially the same terms as the trust preferred securities so long as the successor securities rank the same as the trust preferred securities rank in priority with respect to distributions and payments upon liquidation, redemption and otherwise;

AGL Capital expressly appoints a trustee of such successor entity possessing the same powers and duties as the property trustee as the holder of the junior subordinated debentures;

the trust preferred securities or any successor securities are listed, or any successor securities will be listed upon notification of issuance, on any national securities exchange, quotation system or other organization on which the trust preferred securities are then listed or quoted, if any;

such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not cause the trust preferred securities (including any successor securities) to be downgraded by any nationally recognized statistical rating organization;

such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the holders of the trust preferred securities (including any successor securities) in any material respect;

such successor entity has a purpose identical to that of the trust;

prior to such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, AGL Capital has received an opinion from independent counsel to the trust experienced in such matters to the effect that (a) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the holders of the trust preferred securities (including any successor securities) in any material respect, and (b) following such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, neither the trust nor such successor entity will be required to register as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act; and

AGL Resources, AGL Capital or any permitted successor or assignee owns all of the common securities of such successor entity and guarantees the obligations of such successor entity under the successor securities at least to the extent provided by the guarantee. Notwithstanding the foregoing, the trust shall not, except with the consent of holders of 100% in liquidation amount of the trust preferred securities, consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it if such consolidation, amalgamation, merger, replacement, conveyance, transfer or lease would cause the trust or the successor entity not to be classified as a grantor trust for United States federal income tax purposes. The term substantially as an entirety in reference to the conveyance, transfer or lease of our properties and assets has not been interpreted under governing law to represent a specific quantitative test as applied to the trust and, as a consequence, holders may not be able to determine when the trust has entered into a transaction that conveys, transfers or leases its properties and assets substantially as an entirety. As a result of this uncertainty, it may be difficult for the holders to determine whether such conveyance, transfer or lease has occurred and whether to declare an event of default. Further, there could be a disagreement between the holders and us over whether such a conveyance, transfer or lease of the trust's properties and assets reaches the threshold of substantially as an entirety. To the extent that the holders elect to exercise their rights under the trust agreement resulting from what the holders deem to be a conveyance, transfer or lease of the trust's properties and assets substantially as an entirety and we contest such an election, there can be no assurances as to how a court would interpret the meaning of substantially as an entirety.

### **Voting Rights; Amendment of the Trust Agreement**

Except as provided below and under *Mergers, Consolidations, Amalgamations or Replacements of the Trust* and *Description of Trust Preferred Securities Guarantee Amendments and Assignment* and as otherwise required by law and the trust agreement, the holders of the trust preferred securities will have no voting rights.





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The trust agreement may be amended from time to time by the administrative trustees (and the Delaware trustee or property trustee, if affected by such amendment), without the consent of the holders of the trust preferred securities:

to cure any ambiguity, correct or supplement any provisions in the trust agreement that may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the trust agreement, which shall not be inconsistent with the other provisions of the trust agreement; or

to modify, eliminate or add to any provisions of the trust agreement to such extent as shall be necessary to ensure that the trust will be classified for United States federal income tax purposes as a grantor trust at all times that any trust preferred securities are outstanding or to ensure that the trust will not be required to register as an investment company under the Investment Company Act provided, however, that such action shall not adversely affect in any material respect the interests of the holders of the trust securities, and any amendments of the trust agreement shall become effective when notice thereof is given to the holders of the trust preferred securities.

The trust agreement may be amended by the administrative trustees and AGL Capital:

with the consent of holders representing a majority (based upon liquidation amount) of the outstanding trust preferred securities; and

upon receipt by the administrative trustees of an opinion of counsel to the effect that such amendment or the exercise of any power granted to the administrative trustees in accordance with such amendment will not affect the trust's status as a grantor trust for United States federal income tax purposes or the trust's exemption from status as an investment company under the Investment Company Act.

However, without the consent of each holder of trust preferred securities, the trust agreement may not be amended to:

change the amount or timing of any distribution on the trust preferred securities or otherwise adversely affect the amount of any distribution required to be made in respect of the trust preferred securities as of a specified date or

restrict the right of a holder of trust preferred securities to institute suit for the enforcement of any such payment on or after such date.

So long as any junior subordinated debentures are held by the property trustee, the administrative trustees shall not:

direct the time, method and place of conducting any proceeding for any remedy available to the indenture trustee, or executing any trust or power conferred on such property trustee with respect to the junior subordinated debentures;

waive certain past defaults under the indenture;

exercise any right to rescind or annul a declaration of acceleration of the maturity of the principal of the junior subordinated debentures; or

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consent to any amendment, modification or termination of the indenture or the junior subordinated debentures, where such consent shall be required, without, in each case, obtaining the prior approval of the holders of a majority in liquidation amount of all outstanding trust preferred securities provided, however, that where a consent under the indenture would require the consent of each holder of junior subordinated debentures affected thereby, no such consent shall be given by the property trustee without the prior approval of each holder of the trust preferred securities.

The administrative trustees shall not revoke any action previously authorized or approved by a vote of the holders of the trust preferred securities except by subsequent vote of such holders. The property trustee shall

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notify each holder of trust preferred securities of any notice of default with respect to the junior subordinated debentures. In addition to obtaining the foregoing approvals of such holders of the trust preferred securities, prior to taking any of the foregoing actions, the administrative trustees shall obtain an opinion of counsel experienced in such matters to the effect that the trust will not be classified as an association taxable as a corporation for United States federal income tax purposes on account of such action.

Any required approval of holders of trust preferred securities may be given at a meeting of such holders convened for such purpose or pursuant to written consent. The property trustee will cause a notice of any meeting at which holders of trust preferred securities are entitled to vote, or of any matter upon which action by written consent of such holders is to be taken, to be given to each holder of record of trust preferred securities in the manner set forth in the trust agreement.

No vote or consent of the holders of trust preferred securities will be required for the trust to redeem and cancel the trust preferred securities in accordance with the trust agreement.

Notwithstanding that holders of the trust preferred securities are entitled to vote or consent under any of the circumstances described above, any of the trust preferred securities that are owned by AGL Resources, AGL Capital, the administrative trustees or any affiliate of AGL Resources or any administrative trustees, shall, for purposes of such vote or consent, be treated as if they were not outstanding.

## **Form, Denomination, Book-Entry Procedures and Transfer**

### ***Depository Procedures***

The Depository Trust Company, or DTC, will act as securities depository for the trust preferred securities. DTC has advised the trust and AGL Capital that DTC is a limited-purpose trust company created to hold securities for its participating organizations, referred to as the participants, and to facilitate the clearance and settlement of transactions in those securities between participants through electronic book-entry changes in accounts of its participants. The participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly which are referred to as indirect participants. Persons who are not participants may beneficially own securities held by or on behalf of DTC only through the participants or the indirect participants. The ownership interest and transfer of ownership interest of each actual purchaser of each security held by or on behalf of DTC are recorded on the records of the participants and indirect participants.

DTC is organized under the New York Banking Law, as a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC is a wholly owned subsidiary of The Depository Trust and Clearing Corporation, or DTCC. DTCC is owned by the users of its regulated subsidiaries. The rules applicable to DTC and its participants are on file with the SEC.

DTC has also advised the trust and AGL Capital that, pursuant to procedures established by it, (i) upon deposit of the global trust preferred securities, DTC will credit the accounts of participants designated by the initial purchasers with portions of the liquidation amount of the global trust preferred securities and (ii) ownership of such interests in the global trust preferred securities will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the participants) or by the participants and the indirect participants (with respect to other owners of beneficial interests in the global trust preferred securities).

Investors in the global trust preferred securities may hold their interests therein directly through DTC if they are participants, or indirectly through organizations which are participants. All interests in a global trust preferred

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security may be subject to the procedures and requirements of DTC. The laws of some states require that certain persons take physical delivery in certificated form of securities that they own. Consequently, the ability to transfer beneficial interests in a global trust preferred security to such persons will be limited to that extent. Because DTC can act only on behalf of participants, which in turn act on behalf of indirect participants and certain banks, the ability of a person having beneficial interests in a global trust preferred security to pledge such interests to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests. For certain other restrictions on the transferability of the trust preferred securities, see *Exchange of Book-Entry Trust Preferred Securities for Certificated Trust Preferred Securities*.

Except as described below, owners of interests in the global trust preferred securities will not have trust preferred securities registered in their name, will not receive physical delivery of trust preferred securities in certificated form and will not be considered the registered owners or holders thereof under the trust agreement for any purpose.

The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in a global trust preferred security.

Payments in respect of the global trust preferred security registered in the name of DTC or its nominee will be payable by the property trustee to DTC in its capacity as the registered holder under the trust agreement. Under the terms of the trust agreement, the property trustee will treat the persons in whose names the trust preferred securities, including the global trust preferred securities, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever. Consequently, neither the property trustee nor any agent thereof has or will have any responsibility or liability for:

any aspect of DTC's records or any participant's or indirect participant's records relating to or payments made on account of beneficial ownership interests in the global trust preferred securities, or for maintaining, supervising or reviewing any of DTC's records or any participant's or indirect participant's records relating to the beneficial ownership interests in the global trust preferred securities or

any other matter relating to the actions and practices of DTC or any of its participants or indirect participants.

DTC has advised the trust and AGL Capital that its current practice, upon receipt of any payment in respect of securities such as the trust preferred securities, is to credit the accounts of the relevant participants with the payment on the payment date, in amounts proportionate to their respective holdings in liquidation amount of beneficial interests in the relevant security as shown on the records of DTC unless DTC has reason to believe it will not receive payment on such payment date. Payments by the participants and the indirect participants to the beneficial owners of trust preferred securities will be governed by standing instructions and customary practices and will be the responsibility of the participants or the indirect participants and will not be the responsibility of DTC, the property trustee, the trust, AGL Capital or AGL Resources. Neither the trust, AGL Capital or AGL Resources nor the property trustee will be liable for any delay by DTC or any of its participants in identifying the beneficial owners of the trust preferred securities, and the trust or AGL Capital and the property trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Secondary market trading activity in interests in the global trust preferred securities will settle in immediately available funds, subject in all cases to the rules and procedures of DTC and its participants. Transfers between participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds.

DTC has advised the trust and AGL Capital that it will take any action permitted to be taken by a holder of trust preferred securities only at the direction of one or more participants to whose account with DTC interests in

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the global trust preferred securities are credited and only in respect of such portion of the liquidation amount of the trust preferred securities as to which such participant or participants has or have given such direction. However, if there is an event of default under the trust agreement, DTC reserves the right to exchange the global trust preferred securities for legended trust preferred securities in certificated form and to distribute such trust preferred securities to its participants.

The information in this section concerning DTC and its book-entry systems has been obtained from sources that the trust and AGL Capital believe to be reliable, but neither the trust nor AGL Capital takes responsibility for the accuracy thereof.

Although DTC has agreed to the foregoing procedures to facilitate transfers of interest in the global trust preferred securities among participants in DTC, it is under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. Neither the trust or AGL capital nor the property trustee will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

### ***Exchange of Book-Entry Trust Preferred Securities for Certificated Trust Preferred Securities***

A global trust preferred security is exchangeable for trust preferred securities in registered certificated form if:

DTC notifies the trust that it is unwilling or unable to continue as depository for the global trust preferred security and the trust thereupon fails to appoint a successor depository within 90 days or has ceased to be a clearing agency registered under the Exchange Act;

AGL Capital in its sole discretion elects to cause the issuance of the trust preferred securities in certificated form; or

there shall have occurred and be continuing an event of default or any event which after notice or lapse of time or both would be an event of default under the trust agreement.

### **Payment and Paying Agency**

Payments in respect of the trust preferred securities held in global form shall be made to the depository, which shall credit the relevant accounts at the depository on the applicable distribution dates or in respect of the trust preferred securities that are not held by the depository, such payments shall be made by check mailed to the address of the holder entitled thereto as such address shall appear on the register. The paying agent shall initially be the property trustee and any co-paying agent chosen by the property trustee and acceptable to the administrative trustees and AGL Capital. The paying agent shall be permitted to resign as paying agent upon 30 days written notice to the property trustee and AGL Capital. In the event that the property trustee shall no longer be the paying agent, the administrative trustees shall appoint a successor (which shall be a bank or trust company acceptable to the administrative trustees and AGL Capital) to act as paying agent.

### **Information Concerning the Property Trustee**

The property trustee, other than during the occurrence and continuance of an event of default, undertakes to perform only such duties as are specifically set forth in the trust agreement and, after such event of default, must exercise the same degree of care and skill as a prudent person would exercise or use in the conduct of his or her own affairs. Subject to this provision, the property trustee is under no obligation to exercise any of the powers vested in it by the trust agreement at the request of any holder of trust preferred securities unless it is offered indemnity reasonably satisfactory to it against the costs, expenses and liabilities that might be incurred thereby. If no event of default has occurred and is continuing and the property trustee is required to decide between alternative causes of action, construe ambiguous provisions in the trust agreement or is unsure of the application

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of any provision of the trust agreement, and the matter is not one on which holders of the trust preferred securities or the common securities are entitled under the trust agreement to vote, then the property trustee shall take such action as is directed by AGL Capital and if not so directed, shall take such action as it deems advisable and in the best interests of the holders of the trust preferred securities and will have no liability except for its own bad faith, negligence or willful misconduct.

## **The Expense Agreement**

We will, pursuant to an agreement as to expenses and liabilities entered into by us, AGL Capital and the trust, irrevocably and unconditionally guarantee to each person or entity to whom the trust becomes indebted or liable, the full payment of any costs, expenses or liabilities of the trust, other than obligations of the trust to pay to the holders of the trust preferred securities or other similar interests in the trust the amounts due to the holders pursuant to the terms of the trust preferred securities or other similar interests, as the case may be. Third party creditors of the trust may proceed directly against us and AGL Capital under the agreement as to expenses and liabilities, regardless whether they had notice of the agreement as to expenses and liabilities.

## **Miscellaneous**

The administrative trustees are authorized and directed to conduct the affairs of and to operate the trust in such a way that the trust will not be deemed to be an investment company required to be registered under the Investment Company Act or classified as an association taxable as a corporation for United States federal income tax purposes and so that the junior subordinated debentures will be treated as indebtedness for United States federal income tax purposes. AGL Capital and the administrative trustees are authorized to take any action, not inconsistent with applicable law, the certificate of trust of the trust or the trust agreement, that AGL Capital and the administrative trustees determine in their discretion to be necessary or desirable for such purposes, as long as such action does not materially adversely affect the interests of the holders of the trust preferred securities.

Holders of the trust preferred securities have no preemptive or similar rights. The trust may not borrow money, issue debt, execute mortgages or pledge any of its assets.

## **Governing Law**

The trust agreement will be governed by and construed in accordance with the laws of the State of Delaware.

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**DESCRIPTION OF JUNIOR SUBORDINATED DEBENTURES**

The junior subordinated debentures are to be issued under an indenture, as supplemented from time to time, among AGL Capital, AGL Resources and The Bank of New York Mellon Trust Company, N.A., as debenture trustee. The indenture will be qualified under the Trust Indenture Act. The following description is a summary of the material aspects of the junior subordinated debentures and the indenture.

**General**

Concurrently with the issuance of the trust preferred securities, the trust will invest the proceeds thereof, together with the consideration paid by AGL Capital for the common securities, in junior subordinated debentures issued by AGL Capital. The junior subordinated debentures will bear interest at a specified annual percentage rate, and will be payable quarterly in arrears, (we refer to each quarterly payment date as an interest payment date), to the person in whose name each junior subordinated debenture is registered (unless the indenture supplement or officer certificate prior to the issuance of the junior subordinated debentures specifies payment to someone else) on the record date preceding the relevant payment date. It is anticipated that, until the liquidation, if any, of the trust, each junior subordinated debenture will be held in the name of the property trustee in trust for the benefit of the holders of the trust preferred securities. The amount of interest payable for any period will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the junior subordinated debentures is not a business day, then payment of the interest payable on such date will be made on the next succeeding day that is a business day (and without any interest or other payment in respect of any such delay) with the same force and effect as if made on the date such payment was originally payable. The term "interest," as used herein, shall include quarterly interest payments, interest on quarterly payments not paid on the applicable interest payment date and additional sums (as described below), as applicable.

The junior subordinated debentures will rank equal in priority with all other debentures and will be unsecured and subordinate and junior in right of payment to the extent and in the manner set forth in the indenture to all senior indebtedness. See *Subordination*. AGL Resources will guarantee on a junior subordinated basis the payment of the principal (and premium, if any) and interest on the junior subordinated debentures, except that no payment of interest will be made under the debenture guarantee for any period during which AGL Capital has exercised its right to defer interest payments on the junior subordinated debentures. AGL Capital is a wholly owned finance subsidiary of AGL Resources. AGL Resources is an energy services holding company with no independent business operations or source of income of its own. It conducts substantially all of its operations through its subsidiaries and, as a result, AGL Resources depends on the earnings and cash flow of and dividends or distributions from its subsidiaries to provide the funds necessary to meet its debt and contractual obligations. Furthermore, a substantial portion of AGL Resources' consolidated assets, earnings and cash flow is derived from the operation of its regulated utility subsidiaries, whose legal authority to pay dividends or make other distributions to AGL Resources is subject to regulation.

The right of AGL Resources and AGL Capital to participate in any distribution of assets of any subsidiary upon such subsidiary's liquidation or reorganization or otherwise, is subject to the prior claims of creditors of the subsidiary, except to the extent AGL Resources and AGL Capital may be recognized as a creditor of that subsidiary. Accordingly, the junior subordinated debentures will be effectively subordinated to all existing and future liabilities of AGL Capital's subsidiaries, and holders of junior subordinated debentures should look only to the assets of AGL Capital for payments on the junior subordinated debentures. The indenture does not limit the incurrence or issuance of other secured or unsecured debt of AGL Resources or AGL Capital, including senior indebtedness. See *Subordination*.

The indenture does not contain provisions that afford holders of the junior subordinated debentures protection in the event of a highly leveraged transaction or other similar transactions involving AGL Resources or AGL Capital that may adversely affect such holders.

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### **Form, Registration and Transfer**

If the junior subordinated debentures are distributed to the holders of the trust preferred securities, the junior subordinated debentures may be represented by one or more global certificates registered in the name of Cede & Co. as the nominee of DTC. The depositary arrangements for such junior subordinated debentures are expected to be substantially similar to those in effect for the trust preferred securities. For a description of DTC and the terms of the depositary arrangements relating to payments, transfers, voting rights, redemptions and other notices and other matters, see *Description of Trust Preferred Securities Form, Denomination, Book-Entry Procedures and Transfer* and *Depositary Procedures*.

### **Payment and Paying Agents**

Payment of principal of (and premium, if any) and any interest on junior subordinated debentures will be made at the office of the debenture trustee in The City of New York or at the office of such paying agent or paying agents as AGL Capital may designate from time to time, except that at the option of AGL Capital payment of any interest may be made except in the case of junior subordinated debentures in global form, by:

check mailed to the address of the person entitled thereto as such address shall appear in the register for junior subordinated debentures or

by transfer to an account maintained by the person entitled thereto as specified in such register, provided that proper transfer instructions have been received by the relevant record date.

Payment of any interest on any junior subordinated debenture will be made to the person in whose name such junior subordinated debenture is registered at the close of business on the record date for such interest, except in the case of defaulted interest. AGL Capital may at any time designate additional paying agents or rescind the designation of any paying agent; however AGL Capital will at all times be required to maintain a paying agent in each place of payment for the junior subordinated debentures.

Any moneys deposited with the debenture trustee or any paying agent, or then held by AGL Capital in trust, for the payment of the principal of (and premium, if any) or interest on any junior subordinated debenture and remaining unclaimed for two years after such principal (and premium, if any) or interest has become due and payable shall, at the request of AGL Capital, be repaid to AGL Capital and the holder of such junior subordinated debenture shall thereafter look, as a general unsecured creditor, only to AGL Capital for payment thereof.

### **Option to Extend Interest Payment Date**

So long as no event of default has occurred and is continuing, AGL Capital will have the right under the indenture at any time during the term of the junior subordinated debentures to defer the payment of interest at any time or from time to time for a period not exceeding 20 consecutive quarters with respect to each extended interest payment period, provided that no extended interest payment period may extend beyond the stated maturity date. At the end of such extended interest payment period, AGL Capital must pay all interest then accrued and unpaid (together with interest thereon at a specified annual percentage rate, compounded quarterly, to the extent permitted by applicable law).

During any such extended interest payment period, neither AGL Resources nor AGL Capital may:

declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of its capital stock (which includes common and preferred stock); or

make any payment of principal, interest or premium, if any, on or repay, repurchase or redeem any of its debt securities that rank equal in priority with or junior in right of payment to, with respect to AGL Capital, the junior subordinated debentures or with respect to AGL Resources, debt that is subordinated to its senior indebtedness; or



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make any guarantee payments with respect to any guarantee of the debt securities of any of their respective subsidiaries if such guarantee ranks equal in priority with or junior in right of payment to, with respect to AGL Capital, the junior subordinated debentures or with respect to AGL Resources, debt that is subordinated to its senior indebtedness (other than (a) dividends or distributions in shares of, or options, warrants or rights to subscribe for or purchase shares of, common stock, (b) any declaration of a dividend in connection with the implementation of a stockholders' rights plan, or the issuance of stock under any such plan in the future, or the redemption or repurchase of any such rights pursuant thereto, (c) payments under the trust preferred securities guarantee and the junior subordinated debenture guarantee, (d) the purchase of fractional shares resulting from a reclassification of capital stock or the exchange or conversion of one class or series of capital stock for another class or series of capital stock and (e) the purchase of fractional interests in shares of capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged).

Prior to the termination of any such extended interest payment period, AGL Capital may further extend such extended interest payment period, provided that such extension does not cause such extended interest payment period to exceed 20 consecutive periods including the first quarter during such extended interest payment period, or to extend beyond the stated maturity date. Upon the termination of any such extended interest payment period and the payment of all amounts then due on any interest payment date, AGL Capital may elect to begin a new extended interest payment period, subject to the above requirements. No interest shall be due and payable during an extended interest payment period, except at the end thereof, but AGL Capital may prepay at any time all or any portion of the interest accrued during an extended interest payment period. AGL Capital must give the property trustee, the administrative trustees and the debenture trustee notice of its election of any extended interest payment period (or an extension thereof) at least five business days prior to the earlier of:

the date the distributions on the trust preferred securities would have been payable except for the election to begin or extend such extended interest payment period or

the date the administrative trustees are required to give notice to any securities exchange or other quotation system or to holders of trust preferred securities of the record date or the date such distributions are payable, but in any event not less than one business day prior to such record date. The debenture trustee shall give notice of AGL Capital's election to begin or extend a new extended interest payment period to the holders of the trust preferred securities. There is no limitation on the number of times that AGL Capital may elect to begin an extended interest payment period.

**Optional Redemption**

The junior subordinated debentures will be prepayable, in whole or in part, at the option of AGL Capital on or after the initial optional redemption date at a redemption price, which we refer to as the optional redemption price, equal to the percentage of the outstanding principal amount of the junior subordinated debentures plus accrued and unpaid interest thereon to the date of prepayment.

**Special Event Redemption**

If a tax event or an Investment Company Act event shall occur and be continuing, AGL Capital may, at its option, redeem the junior subordinated debentures in whole (but not in part) and thereby cause the mandatory redemption of the trust preferred securities and the common securities in whole (but not in part) at any time and within 90 days following the occurrence of such tax event or Investment Company Act event at the special event redemption price. Following a tax event or an Investment Company Act event, AGL Capital shall take such action as is necessary to promptly determine the special event redemption price. The special event redemption price shall be paid prior to 12:00 noon, New York time, on the date of such redemption or such earlier time as AGL Capital determines, provided that AGL Capital shall deposit with the trustee an amount sufficient to pay the special event redemption price by 10:00 a.m., New York time, on the date such special event prepayment price is to be paid. AGL Capital shall provide the debenture trustee with written notice of the special event redemption price promptly after the calculation thereof.

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A tax event means the receipt by AGL Capital and the trust of an opinion of counsel experienced in such matters to the effect that, as a result of any amendment to, or change (including any announced prospective change) in, the laws or any regulations thereunder of the United States or any political subdivision or taxing authority thereof or therein, or as a result of any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or such pronouncement or decision is announced or made effective on or after the issue date, there is more than an insubstantial risk that:

the trust is, or will be within 90 days of the date of such opinion, subject to United States federal income tax with respect to all or part of the income received or accrued on the junior subordinated debentures or the trust preferred securities;

interest payable by AGL Capital on the junior subordinated debentures or the trust preferred securities is not, or within 90 days of the date of such opinion will not be, deductible by AGL Capital, in whole or in part, for United States federal income tax purposes; or

the trust is, or will be within 90 days of the date of such opinion, subject to more than a de minimis amount of other taxes, duties or other governmental charges.

An Investment Company Act event means the receipt by AGL Capital and the trust of an opinion of counsel experienced in such matters to the effect that, as a result of the occurrence of a change in law or regulation or a change in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority, there is more than an insubstantial risk that the trust is or will be considered an investment company that is required to be registered under the Investment Company Act, which change becomes effective on or after the issue date of the trust preferred securities.

Notice of any prepayment will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of junior subordinated debentures to be prepaid at its registered address. Unless AGL Capital defaults in payment of the prepayment price, on and after the prepayment date interest ceases to accrue on such junior subordinated debentures called for prepayment.

## **Restrictions on Certain Payments**

Neither AGL Capital nor AGL Resources may (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of its respective capital stock (which includes common and preferred stock) or (ii) make any payment of principal, interest or premium, if any, on or repay or repurchase or redeem any of its debt securities that rank equal in priority with or junior in right of payment to, with respect to AGL Capital, the junior subordinated debentures or with respect to AGL Resources, debt that is subordinated to its senior indebtedness or (iii) make any guarantees with respect to the debt securities of any of their respective subsidiaries if such guarantees rank equal in priority or junior in right of payment to, with respect to AGL Capital, the junior subordinated debentures or with respect to AGL Resources, debt that is subordinated to its senior indebtedness (other than (a) dividends or distributions in shares of, or options, warrants or rights to subscribe for or purchase shares of, common stock, (b) any declaration of a dividend in connection with the implementation of a stockholder's rights plan, or the issuance of stock under any such plan in the future, or the redemption or repurchase of any such rights pursuant thereto, (c) payments under the trust preferred securities guarantee and the junior subordinated debenture guarantee, (d) the purchase of fractional shares resulting from a reclassification of capital stock or the exchange or conversion of one class or series of capital stock for another class or series of capital stock and (e) the purchase of fractional interests in shares of capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged), if at such time (1) there shall have occurred and be continuing a trust agreement event of default, (2) there shall have occurred and be continuing a debenture event of default, (3) there shall have occurred and be continuing a payment default under the trust agreement or the indenture, (4) if such junior subordinated debentures are held by the trust, AGL Capital shall be in default with respect to its payment of any obligations

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under the guarantee or (5) AGL Capital shall have given notice of its election of an extended interest payment period as provided in the indenture and shall not have rescinded such notice, and such extended interest payment period, or any extension thereof, shall have commenced.

### **Modification of Indenture**

From time to time AGL Capital and the debenture trustee may, without the consent of the holders of junior subordinated debentures, amend, waive or supplement the indenture for specified purposes, including, among other things, curing ambiguities, defects or inconsistencies (provided that any such action does not materially adversely affect the interest of the holders of junior subordinated debentures) and qualifying, or maintaining the qualification of, the indenture under the Trust Indenture Act. The indenture contains provisions permitting AGL Capital and the debenture trustee, with the consent of the holders of a majority in principal amount of junior subordinated debentures, to modify the indenture in a manner affecting the rights of the holders of junior subordinated debentures; provided, that no such modification may, without the consent of the holders of each outstanding junior subordinated debenture so affected:

extend the stated maturity, or reduce the principal amount of the junior subordinated debentures or reduce the rate or extend the time of payment of interest thereon, or reduce any amount payable on redemption, or impair or affect the right of any holder of junior subordinated debentures to institute suit for payment; or

reduce the percentage of principal amount of junior subordinated debentures, the holders of which are required to consent to any such modification of the indenture.

### **Junior Subordinated Debenture Events of Default**

The indenture provides that any one or more of the following described events with respect to the junior subordinated debentures constitutes a debenture event of default (whatever the reason for such debenture event of default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

failure for 30 days to pay any interest on the junior subordinated debentures or any other debentures, when due (subject to the deferral of any due date in the case of an extended interest payment period); or

failure to pay any principal or premium, if any, on the junior subordinated debentures or any other debentures within three business days of when due whether at maturity, upon redemption, by declaration of acceleration of maturity or otherwise; or

failure to observe or perform in any material respect certain other covenants or warranties contained in the indenture for 90 days after written notice to AGL Capital from the debenture trustee or the holders of at least 25% in aggregate outstanding principal amount of junior subordinated debentures; or

certain events of bankruptcy, insolvency or reorganization of AGL Capital.

The debenture trustee or the holders of not less than 33% in aggregate outstanding principal amount of the junior subordinated debentures may declare the principal due and payable immediately upon a debenture event of default. The holders of a majority in aggregate outstanding principal amount of the junior subordinated debentures may annul such declaration and waive the default if the default (other than the non-payment of the principal of the junior subordinated debentures which has become due solely by such acceleration) has been cured, waived or otherwise remedied and a sum sufficient to pay all matured installments of interest and principal due otherwise than by acceleration has been deposited with the debenture trustee.

The holders of a majority in aggregate outstanding principal amount of the junior subordinated debentures affected thereby may, on behalf of the holders of all the junior subordinated debentures, waive any past default,



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except a default in the payment of principal (or premium, if any) on or interest (unless such default has been cured and a sum sufficient to pay all matured installments of interest (and premium, if any) and principal due otherwise than by acceleration has been deposited with the debenture trustee) or a default in respect of a covenant or provision which under the indenture cannot be modified or amended without the consent of the holder of each outstanding junior subordinated debenture.

### **Guarantee of Junior Subordinated Debenture Payments by AGL Resources**

If a debenture event of default shall have occurred and be continuing and shall be attributable to the failure of AGL Capital to pay interest (or premium, if any) on principal of the junior subordinated debentures on the due date, AGL Resources will guarantee on a junior subordinated basis the payment of the principal (and premium, if any) and interest on the junior subordinated debentures, except that no payment of interest will be made under the debenture guarantee for any period during which AGL Capital has exercised its right to defer interest payments on the junior subordinated debentures.

### **Consolidation, Merger, Sale of Assets and Other Transactions**

The indenture provides that AGL Capital shall not consolidate with or merge into any other person or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to any person, and no person shall consolidate with or merge into AGL Capital or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to AGL Capital, unless:

in case AGL Capital consolidates with or merges into another person or conveys or transfers its properties and assets substantially as an entirety to any person, the successor person is organized under the laws of the United States or any state or the District of Columbia, and such successor person expressly assumes AGL Capital's obligations on the junior subordinated debentures;

immediately after giving effect thereto, no debenture event of default, and no event which, after notice or lapse of time or both, would become a debenture event of default, shall have occurred and be continuing; and

certain other conditions as prescribed in the indenture are met.

The general provisions of the indenture do not afford holders of the junior subordinated debentures protection in the event of a highly leveraged or other transaction involving AGL Capital that may adversely affect holders of the junior subordinated debentures. The term "substantially as an entirety" in reference to the conveyance, transfer or lease of our properties and assets has not been interpreted under governing law to represent a specific quantitative test as applied to us and, as a consequence, holders may not be able to determine when we have entered into a transaction that conveys, transfers or leases our properties and assets substantially as an entirety. As a result of this uncertainty, it may be difficult for the holders to determine whether such conveyance, transfer or lease has occurred and whether to declare an event of default. Further, there could be a disagreement between the holders and us over whether such a conveyance, transfer or lease of our properties and assets reaches the threshold of "substantially as an entirety." To the extent that the holders elect to exercise their rights under the indenture resulting from what the holders deem to be a conveyance, transfer or lease of our properties and assets substantially as an entirety and we contest such an election, there can be no assurances as to how a court would interpret the meaning of "substantially as an entirety."

### **Satisfaction and Discharge**

The indenture provides that when, among other things, all junior subordinated debentures not previously delivered to the debenture trustee for cancellation:

have become due and payable or

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will become due and payable at maturity within one year, and AGL Capital deposits or causes to be deposited with the debenture trustee funds, in trust, for the purpose and in an amount sufficient to pay

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and discharge the entire indebtedness on the junior subordinated debentures not previously delivered to the debenture trustee for cancellation, for the principal (and premium, if any) and interest to the date of the deposit or to the stated maturity date, as the case may be, then the indenture will cease to be of further effect (except as to AGL Capital's obligations to pay all other sums due pursuant to the indenture and to provide the officers' certificates and opinions of counsel described therein), and AGL Capital will be deemed to have satisfied and discharged the indenture.

**Subordination**

The indenture provides that the junior subordinated debentures issued thereunder will be subordinate and junior in right of payment to all senior indebtedness of AGL Capital. No payment of principal (including redemption payments), premium, if any, or interest on the junior subordinated debentures may be made at any time when:

any senior indebtedness of AGL Capital is not paid when due;

any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist;  
or

the maturity of any senior indebtedness of AGL Capital has been accelerated because of a default.

Upon any distribution of assets to creditors upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, debt restructuring or similar proceedings in connection with any insolvency or bankruptcy proceeding of AGL Capital, all senior indebtedness of AGL Capital must be paid in full before the holders of the junior subordinated debentures are entitled to receive or retain any payment in respect thereof.

In the event of the acceleration of the maturity of junior subordinated debentures, the holders of all senior indebtedness of AGL Capital outstanding at the time of such acceleration will first be entitled to receive payment in full before the holders of junior subordinated debentures will be entitled to receive or retain any payment in respect of the junior subordinated debentures.

Senior indebtedness shall mean with respect to an obligor, (i) the principal, premium, if any, and interest in respect of (A) indebtedness of such obligor for money borrowed, and (B) indebtedness evidenced by securities, debentures, bonds or other similar instruments issued by such obligor, (ii) all capital lease obligations of such obligor, (iii) all obligations of such obligor issued or assumed as the deferred purchase price of property, all conditional sale obligations of such obligor and all obligations of such obligor under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business, (iv) all obligations of such obligor for the reimbursement on any letter of credit, banker's acceptance, security purchase facility or similar credit transaction, (v) all obligations of the type referred to in clauses (i) through (iv) above of other persons secured by any lien on any property or asset of such obligor (whether or not such obligation is assumed by such obligor), except for (1) any such indebtedness that is by its terms subordinated to or ranks equal in priority with the junior subordinated debentures, and (2) all debt securities or guarantees in respect of those debt securities, issued to any other trust, or a trustee of such trust, partnership or other entity affiliated with AGL Capital that is a financing vehicle of AGL Capital in connection with the issuance by such financing entity of equity securities or other securities guaranteed by AGL Resources or AGL Capital pursuant to an instrument that ranks equal in priority with or junior in right of payment to the trust preferred securities guarantee.

AGL Resources is an energy services holding company with no independent business operations or source of income of its own. It conducts substantially all of its operations through its subsidiaries and, as a result, AGL Resources depends on the earnings and cash flow of and dividends or distributions from its subsidiaries to provide the funds necessary to meet its debt and contractual obligations. Furthermore, a substantial portion of AGL Resources' consolidated assets, earnings and cash flow is derived from the operation of its regulated utility subsidiaries, whose legal authority to pay dividends or make other distributions to AGL Resources is subject to

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regulation. AGL Capital is a wholly owned finance subsidiary of AGL Resources. The right of AGL Resources and AGL Capital to participate in any distribution of assets of any subsidiary, upon such subsidiary's liquidation or reorganization or otherwise, is subject to the prior claims of creditors of the subsidiary.

The indenture places no limitation on the amount of additional senior indebtedness that may be incurred by AGL Capital. AGL Capital expects from time to time to incur additional indebtedness constituting senior indebtedness.

## **Governing Law**

The indenture and the junior subordinated debentures will be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of law thereof.

## **Information Concerning the Indenture Trustee**

The indenture trustee shall have and be subject to all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to such provisions, the indenture trustee is under no obligation to exercise any of the powers vested in it by the indenture at the request of any holder of junior subordinated debentures, unless offered reasonably satisfactory to it indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The indenture trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties if the indenture trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

## **Miscellaneous**

AGL Capital has agreed, pursuant to the indenture, for so long as trust securities remain outstanding:

to maintain directly or indirectly 100% ownership of the common securities of the trust (provided that certain successors which are permitted pursuant to the indenture may succeed to AGL Capital's ownership of the common securities);

not to voluntarily terminate, wind up or liquidate the trust, except in connection with a distribution of junior subordinated debentures to the holders of the trust preferred securities in liquidation of the trust; and

to use its reasonable efforts, consistent with the terms and provisions of the trust agreement to cause the trust to remain classified as (a) a business trust, except in connection with certain mergers, consolidations or amalgamations permitted by the trust agreement, and (b) a grantor trust and not as an association taxable as a corporation for United States federal income tax purposes.



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**DESCRIPTION OF TRUST PREFERRED SECURITIES GUARANTEE**

The trust preferred securities guarantee will be executed and delivered by AGL Resources concurrently with the issuance by the trust of the trust preferred securities for the benefit of the holders of the trust preferred securities. The Bank of New York Mellon Trust Company, N.A. will act as the trust preferred securities guarantee trustee. The trust preferred securities guarantee will be qualified under the Trust Indenture Act. The following description is a summary of the material provisions of the trust preferred securities guarantee. The trust preferred securities guarantee trustee will hold the trust preferred securities guarantee for the benefit of the holders of the trust preferred securities.

**General**

AGL Resources will irrevocably agree to pay in full on a subordinated basis, to the extent set forth herein, the trust preferred securities guarantee payments (as defined below) to the holders of the trust preferred securities, as and when due, regardless of any defense, right of set-off or counterclaim that the trust may have or assert other than the defense of payment. The following payments with respect to the trust preferred securities, to the extent not paid by or on behalf of the trust, will be subject to the trust preferred securities guarantee:

any accumulated and unpaid distributions required to be paid on trust preferred securities, to the extent that the trust has funds on hand legally available therefor at such time;

the applicable redemption price with respect to trust preferred securities called for redemption, to the extent that the trust has funds on hand legally available therefor at such time; or

upon a voluntary or involuntary termination and liquidation of the trust, the lesser of (a) the liquidation distribution, to the extent that the trust has funds on hand legally available therefor, and (b) the amount of assets of the trust remaining available for distribution to holders of trust preferred securities. AGL Resources' obligation to make a trust preferred securities guarantee payment may be satisfied by direct payment of the required amounts by AGL Resources to the holders of the trust preferred securities or by causing the trust to pay such amounts to such holders.

The trust preferred securities guarantee will rank subordinate and junior in right of payment to all senior indebtedness of AGL Resources to the extent provided therein. See *Status of the Trust Preferred Securities Guarantee*. Because AGL Resources is a holding company, the right of AGL Resources to participate in any distribution of assets of any subsidiary upon such subsidiary's liquidation or reorganization or otherwise, is subject to the prior claims of creditors of that subsidiary, except to the extent AGL Resources may itself be recognized as a creditor of that subsidiary. Accordingly, AGL Resources' obligations under the trust preferred securities guarantee will be effectively subordinated to all existing and future liabilities of AGL Resources' subsidiaries, and claimants should look only to the assets of AGL Resources for payments thereunder. See *Description of the Junior Subordinated Debentures - General*. The trust preferred securities guarantee does not limit the incurrence or issuance of other secured or unsecured debt of AGL Resources, including senior indebtedness, whether under the indenture, any other indenture that AGL Resources may enter into in the future or otherwise.

AGL Resources will, through the trust preferred securities guarantee, fully, irrevocably and unconditionally guarantee all of the trust's obligations under the trust preferred securities but the trust preferred securities guarantee will not apply to any payment of distributions except to the extent the trust has funds legally available therefor. If AGL Capital does not make interest payments on the junior subordinated debentures held by the trust, the trust will not pay distributions on the trust preferred securities and will not have funds legally available therefor.

**Status of the Trust Preferred Securities Guarantee**

Generally, the trust preferred securities guarantee will constitute an unsecured obligation of AGL Resources and will rank subordinate and junior in right of payment to all of its senior indebtedness in the same manner as junior subordinated debentures.

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The trust preferred securities guarantee will rank equal in priority with all other guarantees issued by AGL Resources. The trust preferred securities guarantee will constitute a guarantee of payment and not of collection (i.e., the guaranteed party may institute a legal proceeding directly against AGL Resources to enforce its rights under the trust preferred securities guarantee without first instituting a legal proceeding against any other person or entity). The trust preferred securities guarantee will be held for the benefit of the holders of the trust preferred securities. The trust preferred securities guarantee will not be discharged except by payment of the trust preferred securities guarantee payments in full to the extent not paid by the trust or upon distribution to the holders of the trust preferred securities of the junior subordinated debentures. The trust preferred securities guarantee does not place a limitation on the amount of additional senior indebtedness that may be incurred by AGL Resources. AGL Resources expects from time to time to incur additional indebtedness constituting senior indebtedness.

## **Amendments and Assignment**

Except with respect to any changes that do not materially adversely affect the rights of holders of the trust preferred securities (in which case no vote will be required), the trust preferred securities guarantee may not be amended without the prior approval of the holders of a majority of the liquidation amount of such outstanding trust preferred securities. The manner of obtaining any such approval will be as set forth under *Description of Trust Preferred Securities Voting Rights; Amendment of the Trust Agreement*. All guarantees and agreements contained in the trust preferred securities guarantee agreement shall bind the successors, assigns, receivers, trustees and representatives of AGL Resources and shall inure to the benefit of the holders of the trust preferred securities then outstanding.

## **Events of Default**

An event of default under the trust preferred securities guarantee will occur upon the failure of AGL Resources to perform any of its payment obligations thereunder. The holders of a majority in liquidation amount of the trust preferred securities will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trust preferred securities guarantee trustee in respect of the trust preferred securities guarantee or to direct the exercise of any trust or power conferred upon the trust preferred securities guarantee trustee under the trust preferred securities guarantee. The trust preferred securities guarantee trustee may decline to follow any such direction if it shall determine that the action so directed would be unjustly prejudicial to the holders not taking part in such direction or that the action or proceeding so directed may not lawfully be taken or would involve the trust preferred securities guarantee trustee in personal liability.

Any holder of the trust preferred securities may institute a legal proceeding directly against AGL Resources to enforce its rights under the trust preferred securities guarantee without first instituting a legal proceeding against the trust, the trust preferred securities guarantee trustee or any other person or entity.

AGL Resources, as guarantor, will be required to file annually with the trust preferred securities guarantee trustee a certificate as to whether or not AGL Resources is in compliance with all the conditions and covenants applicable to it under the trust preferred securities guarantee.

## **Information Concerning the Trust Preferred Securities Guarantee Trustee**

The trust preferred securities guarantee trustee's duties, other than during the occurrence and continuance of an event of default by AGL Resources in performance of the trust preferred securities guarantee, shall be to maintain a list of holders of the trust preferred securities and provide the list to other holders upon a request made in compliance with Section 312(b) of the Trust Indenture Act and to provide to the holders within 60 days after May 15 of each year a brief report specifying events that occurred during the last 12 months in accordance with Section 313 of the Trust Indenture Act. The trust preferred securities guarantee trustee's duties after default with respect to the trust preferred securities guarantee shall be to exercise the same degree of care and skill as a prudent person would exercise or use in the conduct of his or her own affairs. Subject to this provision, the trust

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preferred securities guarantee trustee will be under no obligation to exercise any of the powers vested in it by the trust preferred securities guarantee at the request of any holder of the trust preferred securities unless it is offered indemnity reasonably satisfactory to it against the costs, expenses and liabilities that might be incurred thereby.

**Termination of the Guarantee**

The trust preferred securities guarantee will terminate and be of no further force and effect upon full payment of the applicable redemption price of the trust preferred securities, upon full payment of the liquidation amount payable upon liquidation of the trust, or upon distribution of junior subordinated debentures to the holders of the trust preferred securities, or upon exchange of all trust preferred securities for other trust preferred securities in an exchange offer. The trust preferred securities guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of the trust preferred securities must restore payment of any sums paid under the trust preferred securities or the trust preferred securities guarantee.

**Governing Law**

The trust preferred securities guarantee will be governed by and construed in accordance with the laws of the State of New York without giving effect to principles of conflicts of law thereof.

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**DESCRIPTION OF DEBENTURE GUARANTEE**

The following description is a summary of the material provisions of the debenture guarantee.

AGL Resources will guarantee on a junior subordinated basis the payment of principal (and premium, if any) and interest on the junior subordinated debentures, except that no payment of interest will be made under the debenture guarantee for any period during which AGL Capital has exercised its right to defer interest payments on the junior subordinated debentures.

The debenture guarantee will rank subordinate and junior in right of payment to all senior indebtedness of AGL Resources to the extent provided in the indenture. The right of AGL Resources to participate in any distribution of assets of any subsidiary upon such subsidiary's liquidation or reorganization or otherwise, is subject to the prior claims of creditors of that subsidiary, except to the extent AGL Resources may itself be recognized as a creditor of that subsidiary. Accordingly, AGL Resources' obligations under the debenture guarantee will be effectively subordinated to all existing and future liabilities of AGL Resources' subsidiaries, and claimants should look only to the assets of AGL Resources for payments thereunder. The debenture guarantee does not limit the incurrence or issuance of other secured or unsecured debt of AGL Resources, including senior indebtedness, whether under the indenture, any other indenture that AGL Resources may enter into in the future or otherwise.

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**RELATIONSHIP AMONG THE TRUST PREFERRED SECURITIES, THE JUNIOR SUBORDINATED DEBENTURES, THE TRUST PREFERRED SECURITIES GUARANTEE AND THE DEBENTURE GUARANTEE**

**Full and Unconditional Trust Preferred Securities Guarantee**

Payments of distributions and other amounts due on the trust preferred securities (to the extent the trust has funds on hand legally available for the payment of such distributions) will be irrevocably guaranteed by AGL Resources as and to the extent set forth under *Description of Trust Preferred Securities Guarantee*. Taken together, AGL Resources' and AGL Capital's obligations under the junior subordinated debentures, the indenture, the trust agreement, the trust preferred securities guarantee and the debenture guarantee will provide, in the aggregate, a full, irrevocable and unconditional guarantee of payments of distributions and other amounts due on the trust preferred securities. No single document standing alone or operating in conjunction with fewer than all of the other documents constitutes such guarantee. It is only the combined operation of these documents that has the effect of providing a full, irrevocable and unconditional guarantee of the trust's obligations under the trust preferred securities. If and to the extent that AGL Capital does not make the required payments on the junior subordinated debentures, the trust will not have sufficient funds to make the related payments, including distributions, on the trust preferred securities. The trust preferred securities guarantee will not cover any such payment when the trust does not have sufficient funds on hand legally available therefor. However, through the debenture guarantee, AGL Resources will guarantee on a junior subordinated basis the due and punctual payment of the principal (and premium, if any) and interest on the junior subordinated debentures. The obligations of AGL Resources under the trust preferred securities guarantee and debenture guarantee will be subordinate and junior in right of payment to all senior indebtedness.

**Sufficiency of Payments**

As long as payments of interest and other payments are made when due on the junior subordinated debentures, such payments will be sufficient to cover distributions and other payments due on the trust preferred securities, primarily because:

the aggregate principal amount or prepayment price of the junior subordinated debentures will be equal to the sum of the liquidation amount or redemption price, as applicable, of the trust preferred securities and common securities;

the interest rate and interest and other payment dates on the junior subordinated debentures will match the interest rate and interest and other payment dates for the trust securities;

AGL Capital shall pay for all and any costs, expenses and liabilities of the trust except the trust's obligations to holders of trust preferred securities under such trust preferred securities; and

the trust agreement will provide that the trust is not authorized to engage in any activity that is not consistent with the limited purposes thereof.

**Enforcement Rights of Holders of Trust Preferred Securities**

A holder of any trust preferred security may institute a legal proceeding directly against AGL Resources to enforce its rights under the guarantee without first instituting a legal proceeding against the guarantee trustee, the trust or any other person or entity. A default or event of default under any senior indebtedness would not constitute a default or event of default under the trust agreement. However, in the event of payment defaults under, or acceleration of, senior indebtedness, the subordination provisions of the indenture will provide that no payments may be made in respect of the junior subordinated debentures until such senior indebtedness has been paid in full or any payment default thereunder has been cured or waived. Failure to make required payments on junior subordinated debentures would constitute an event of default under the trust agreement.

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If a trust enforcement event occurs, the holders of trust preferred securities would rely on the enforcement by the property trustee of its rights as registered holder of the junior subordinated debentures against AGL Capital. In addition, generally, the holders of a majority in liquidation amount of the trust preferred securities will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the property trustee or to direct the exercise of any trust or power conferred upon the property trustee under the trust agreement, including the right to direct the property trustee to exercise the remedies available to it as the holder of the junior subordinated debentures. The indenture provides that the indenture trustee will give holders of junior subordinated debentures notice of all events of default within 90 days after their occurrence.

If the property trustee fails to enforce its rights under the junior subordinated debentures in respect of an event of default under the indenture after a holder of trust preferred securities has made a written request, such holder may, to the extent permitted by applicable law, institute a legal proceeding against us to enforce the property trustee's rights under the junior subordinated debentures. In addition, if AGL Capital fails to pay interest or principal on the junior subordinated debentures, a holder of trust preferred securities may institute a proceeding directly against AGL Capital for enforcement of payment to that holder of the principal of or interest on junior subordinated debentures having a principal amount equal to the total liquidation amount of that holder's trust preferred securities (which we refer to as a "direct action"). In connection with such a direct action, we will have the right to set off any payment made to such holder by AGL Capital.

**Limited Purpose of the Trust**

The trust preferred securities will represent preferred undivided beneficial interests in the assets of the trust, and the trust exists for the sole purpose of issuing and selling the trust securities, using the proceeds from the sale of the trust securities to acquire the junior subordinated debentures and engaging in only those other activities necessary, advisable or incidental thereto.

**Rights Upon Termination**

Unless the junior subordinated debentures are distributed to holders of the trust preferred securities, upon any voluntary or involuntary termination and liquidation of the trust, the holders of the trust preferred securities will be entitled to receive, out of assets held by the trust, the liquidation distribution in cash. See *Description of Trust Preferred Securities Liquidation of the Trust and Distribution of Junior Subordinated Debentures*. Upon any voluntary or involuntary liquidation or bankruptcy of AGL Capital, the property trustee, as holder of the junior subordinated debentures, would be a subordinated creditor of AGL Capital, subordinated in right of payment to all senior indebtedness as set forth in the indenture, but entitled to receive payment in full of principal (and premium, if any) and interest, before any stockholders of AGL Capital receive payments or distributions.

	26,749
Cash and cash equivalents at end of period	
\$	32,652
\$	7,433
Supplemental disclosures of cash flow information:	
Cash paid during the period for interest	
\$	7,438
\$	

6,161

Supplemental schedule of non-cash investing and financing activities:

Assumption of mortgage payable in connection with purchase of real estate

\$ -

\$ 26,957

Purchase accounting allocations

\$ -

\$ 3,916

Reclassification of 2005 deposit in connection with purchase of real estate

\$ -

\$ 2,525

See accompanying notes to consolidated financial statements.

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One Liberty Properties, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements

Note 1 - Organization and Background

One Liberty Properties, Inc. (the “Company”) was incorporated in 1982 in the state of Maryland. The Company is a self-administered and self-managed real estate investment trust (“REIT”). The Company acquires, owns and manages a geographically diversified portfolio of retail, including retail furniture stores, industrial, office, flex, health and fitness and other properties, a substantial portion of which are under long-term net leases. As of June 30, 2007, the Company owns 65 properties and holds a 50% tenancy in common interest in one property. The Company’s joint ventures own five properties, including two properties that are held for sale, one of which is vacant. The 71 properties are located in 28 states.

Note 2 - Basis of Preparation

The accompanying interim unaudited consolidated financial statements as of June 30, 2007 and 2006 and for the six and three months ended June 30, 2007 and 2006 reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for such interim periods. The results of operations for the six and three months ended June 30, 2007 are not necessarily indicative of the results for the full year.

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The consolidated financial statements include the accounts and operations of One Liberty Properties, Inc. and its wholly-owned subsidiaries (collectively, the “Company”). Material intercompany items and transactions have been eliminated. The Company accounts for its investments in unconsolidated joint ventures under the equity method of accounting as the Company (1) is primarily the managing member but does not exercise substantial operating control over these entities pursuant to EITF 04-05, and (2) such entities are not variable-interest entities pursuant to FASB Interpretation No. 46R, “Consolidation of Variable Interest Entities”. These investments are recorded initially at cost, as investments in unconsolidated joint ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions.

These statements should be read in conjunction with the consolidated financial statements and related notes which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Note 3 - Earnings Per Common Share

For the six and three months ended June 30, 2007 and 2006, basic earnings per share were determined by dividing net income for the period by the weighted average number of shares of the Company’s Common Stock outstanding, which includes unvested restricted stock during each period.



One Liberty Properties, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Continued)

Note 3 - Earnings Per Common Share (Continued)

Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts exercisable for, or convertible into, Common Stock were exercised or converted or resulted in the issuance of Common Stock that shared in the earnings of the Company. For the six and three months ended June 30, 2006, diluted earnings per share were determined by dividing net income for the period by the total of the weighted average number of shares of Common Stock outstanding plus the dilutive effect of the Company's outstanding options (3,448 and 3,427 for the six and three months ended June 30, 2006, respectively) using the treasury stock method. There were no outstanding options in the six and three months ended June 30, 2007.

Note 4 - Investment in Unconsolidated Joint Ventures

At June 30, 2007 the Company is a member in seven unconsolidated joint ventures which own and operate five properties. Two of these joint ventures are between the Company and MTC Investors LLC, an unrelated party. The one remaining real estate asset of these two joint ventures was a vacant parcel of land located in Monroe, New York which was sold on March 14, 2007 for a consideration of \$1,250,000 to a former tenant of the joint venture as part of an overall settlement of a litigation with the former tenant. See Note 12. This property had a net book value of \$40,000 after direct write downs totaling \$3,162,000 taken in prior periods. In the three months ended March 31, 2007, the joint venture realized a gain on sale of this property of \$1,166,000, of which the Company's 50% share is \$583,000. At June 30, 2007 and December 31, 2006, the Company's equity investment in these two joint ventures totaled \$873,000 and \$284,000, respectively, and they contributed \$12,000 and \$8,000 in equity earnings for the six and three months ended June 30, 2007 and \$1,461,000 and \$799,000, respectively, in equity earnings for the six and three months ended June 30, 2006.

The remaining five unconsolidated joint ventures each own one property, including two properties that are held for sale, one of which is vacant. At June 30, 2007 and December 31, 2006, the Company's equity investment in these five joint ventures totaled \$6,640,000 and \$6,730,000, respectively. These unconsolidated joint ventures contributed \$281,000 and \$141,000 in equity earnings for the six and three months ended June 30, 2007, respectively, and \$217,000 and \$104,000 for the six and three months ended June 30, 2006, respectively.

Note 5 - Line of Credit

On March 15, 2007 the Company consummated an amendment to its existing \$62,500,000 revolving credit facility ("Facility") with VNB New York Corp. (formerly Valley National Bank), Bank Leumi USA, Israel Discount Bank of New York and Manufacturers and Traders Trust Company. The amendment extended the maturity date of the Facility from March 31, 2007 to March 31, 2010 and reduced the interest rate to the lower of LIBOR plus 2.15% (formerly 2.5%) or the bank's prime rate on funds borrowed. The facility provides for an unused facility fee of ¼%. Substantially all material covenants remained the same. In connection with the amendment, the Company paid approximately \$650,000 in fees and closing costs which are being amortized over the term of the Facility. There is no balance outstanding under the Facility at June 30, 2007.

One Liberty Properties, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Continued)

Note 6 - Discontinued Operations

The following is a summary of income from discontinued operations, for the six and three months ended June 30, 2007 and 2006 applicable to the property sold on October 5, 2006 and to the five properties sold in the year ended December 31, 2005 (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Rental income	\$ -	\$ 303	\$ -	\$ 607
Other income	-	400	115	400
Total revenues	-	703	115	1,007
Depreciation and amortization	-	39	-	97
Real estate expenses	4	5	14	6
Interest expense	-	106	-	214
Total expenses	4	150	14	317
(Loss) income from discontinued operations	\$ (4)	\$ 553	\$ 101	\$ 690

Note 7 - Common Stock Dividend Distribution

On June 12, 2007, the Board of Directors declared a quarterly cash distribution of \$.36 per share, totaling \$3,620,000, on the Company's Common Stock which was paid on July 3, 2007 to stockholders of record on June 25, 2007.

Note 8 - Comprehensive Income

Comprehensive income for the six and three months ended June 30, 2007 and 2006 are as follows (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income	\$ 2,532	\$ 3,192	\$ 5,678	\$ 6,262
Other comprehensive income - Unrealized (loss) gain on available-for-sale securities	(142)	(94)	(214)	15
Comprehensive income	\$ 2,390	\$ 3,098	\$ 5,464	\$ 6,277

Accumulated other comprehensive income, which is solely comprised of the net unrealized gain on available-for-sale securities was \$721,000 and \$935,000 at June 30, 2007 and December 31, 2006, respectively.



One Liberty Properties, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Continued)

Note 9 - Restricted Stock

The Company adopted the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123R, “Share-Based Payments”, effective January 1, 2006. SFAS No. 123R established financial accounting and reporting standards for stock-based employee compensation plans, including all arrangements by which employees receive shares of stock or other equity instruments of the employer, or the employer incurs liabilities to employees in amounts based on the price of the employer’s stock. The statement also defined a fair value based method of accounting for an employee stock option or similar equity instrument whereby the fair-value is recorded based on the market value of the common stock on the grant date and is amortized to general and administrative expense over the respective vesting periods.

The Company’s 2003 Stock Incentive Plan (the “Incentive Plan”), approved by the Company’s stockholders in June 2003, provides for the granting of restricted shares. The maximum number of shares of the Company’s common stock that may be issued pursuant to the Incentive Plan is 275,000. The restricted stock grants are valued at the fair value as of the date of the grant and specify vesting upon the fifth anniversary of the date of grant and under certain circumstances may vest earlier. For accounting purposes, the restricted stock is not included in the outstanding shares shown on the balance sheet until they vest. The value of such grants is initially deferred, and amortization of amounts deferred is being charged to operations over the respective vesting periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Restricted share grants			51,225	50,050
Average per share grant price	\$ -	\$ -	\$ 24.50	\$ 20.66
Recorded as deferred compensation	\$ -	\$ -	\$ 1,255,000	\$ 1,034,000
<b>Total charge to operations, all outstanding restricted grants</b>	<b>\$ 265,000</b>	<b>\$ 136,000</b>	<b>\$ 424,000</b>	<b>\$ 242,000</b>
<b>Non-vested shares:</b>				
Non-vested beginning of period	191,400	142,775	140,175	92,725
Grants	-	-	51,225	50,050
Vested during period	(5,000)	-	(5,000)	-
Forfeitures	-	(1,100)	-	(1,100)
Non-vested end of period	186,400	141,675	186,400	141,675

Through June 30, 2007, a total of 193,150 shares were issued and 81,850 shares remain available for grant pursuant to the Incentive Plan, and approximately \$2,846,000 remains as deferred compensation and will be charged to expense over the remaining weighted average vesting period of approximately 3.14 years. Included in the 2007 compensation expense is \$64,000 related to the accelerated vesting of 5,000 shares of restricted stock that had been awarded to a retired board member.

One Liberty Properties, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Continued)

Note 10 - Dividend Reinvestment Plan

In June 2007, the Company implemented a new Dividend Reinvestment Plan (the "Plan"), replacing a similar plan which was established in May 1996 and terminated simultaneously with the filing of the new Plan with the Securities and Exchange Commission on June 1, 2007. The Plan provides owners of record the opportunity to reinvest cash dividends paid on the Company's common stock in additional shares of its common stock, at a discount of 0% to 5% from the market price. The discount will be determined at the Company's sole discretion. The Company is currently offering a 5% discount from market.

Note 11 - New Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"). This interpretation, among other things, creates a two step approach for evaluating uncertain tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions, and it has expanded disclosure requirements. FIN 48 is effective for fiscal years beginning after December 15, 2006, in which the impact of adoption should be accounted for as a cumulative-effect adjustment to the beginning balance of retained earnings. The Company has adopted FIN 48 and determined that it has no material effect on its consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, "*Fair Value Measurements*" ("SFAS No. 157"). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective in fiscal years beginning after November 15, 2007. The Company believes that the adoption of this standard on January 1, 2008 will not have a material effect on its consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" ("SFAS No. 159") SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. The Standard's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The FASB believes that SFAS No. 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS No. 157. The Company is evaluating SFAS No. 159 and has not yet determined the impact the adoption will have on its consolidated financial statements, but it is not expected to be significant.



One Liberty Properties, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Continued)

Note 12 - Legal Matters

In July 2005, the Company's former president and chief executive officer, who was also a member of its board of directors, resigned following the discovery of what appeared to be inappropriate financial dealings by him with a former tenant of a property owned by a joint venture in which the Company is a 50% partner and the managing member. The Company reported this matter to the Securities and Exchange Commission in July 2005. The Audit Committee of the Board of Directors conducted an investigation of this matter and related matters and retained special counsel to assist the committee in its investigation. This investigation was completed, and the Audit Committee and its special counsel, based on the materials gathered and interviews conducted, found no evidence that any officer or employee of the Company (other than the former president and chief executive officer) was aware of, or knowingly assisted, our former president and chief executive officer's inappropriate financial dealings.

In June 2006, the Company announced that it had received notification of a formal order of investigation from the SEC. Management believes that the matters being investigated by the SEC focus on the improper payments received by the Company's president and chief executive officer. The SEC also requested information regarding "related party transactions" between the Company and entities affiliated with it and with certain of the Company's officers and directors and compensation paid to certain of the Company's officers by these affiliates. The SEC and the Company's Audit Committee have conducted investigations concerning these issues. The Company believes that these investigations have been substantially completed.

In August 2005, the former tenant commenced litigation in the Supreme Court of the State of New York, Nassau County against the Company, certain of its affiliated entities, the Company's former president and chief executive officer, and an entity controlled by the Company's former president and chief executive officer. In the litigation, the former tenant alleged, as against the Company's former president and chief executive officer, an entity controlled by him, the Company and its affiliated entities, fraud, breach of contract, intentional tort, negligent supervision, respondeat superior, negligent misrepresentation, tortious interference with prospective economic relations and conduct in violation of the Racketeer Influenced and Corrupt Organizations Act ("RICO"). On the same date that the complaint was filed against the Company and affiliated entities, the Company filed suit in the Supreme Court of the State of New York, Nassau County against the former tenant, the former tenant's principal, the Company's former president and chief executive officer, an entity controlled by him and others alleging conspiracy to defraud, commercial bribery, fraud, breach of fiduciary duty, tortious interference, intentional tort, violation of the New York Enterprise Corruption Act, respondeat superior, unjust enrichment and violations of RICO.

The two actions were consolidated for all purposes on motion by both parties. On March 14, 2007, the consolidated actions were settled with respect to all parties, except that the action brought by the Company against its former president and chief executive officer and persons affiliated with him is continuing. Under the terms of the settlement agreement, a designee of the former tenant purchased, from a joint venture in which the Company is a 50% joint venture partner, a vacant property located in Monroe, New York, for a consideration of \$1,250,000 (book value of \$40,000 after write downs totaling \$3,162,000), and the parties exchanged releases.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Forward-Looking Statements

With the exception of historical information, this quarterly report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions or variations thereof. Forward-looking statements should not be relied on since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect actual results, performance or achievements. Investors are cautioned not to place undue reliance on any forward-looking statements.

Overview

We are a self-administered and self-managed real estate investment trust, or REIT, and we primarily own real estate that we net lease to tenants. As of June 30, 2007 we own 65 properties, hold a 50% tenancy in common interest in one property and participate in seven joint ventures which own a total of five properties, including two properties that are held for sale, one of which is vacant. These 71 properties are located in 28 states.

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute currently at least 90% of ordinary taxable income to our stockholders. We intend to comply with these requirements and to maintain our REIT status.

Our principal business strategy is to acquire improved, commercial properties subject to long-term net leases. We acquire properties for their value as long-term investments and for their ability to generate income over an extended period of time. We have borrowed funds in the past to finance the purchase of real estate and we expect to do so in the future.

Our rental properties are generally leased to corporate tenants under operating leases substantially all of which are noncancellable. Substantially all of our lease agreements are net lease arrangements that require the tenant to pay not only rent, but also substantially all of the operating expenses of the leased property, including maintenance, taxes, utilities and insurance. A majority of our lease agreements provide for periodic rental increases and certain of our other leases provide for increases based on the consumer price index.

At June 30, 2007, excluding mortgages payable of our unconsolidated joint ventures, we had 36 outstanding mortgages payable, aggregating approximately \$219 million in principal amount, each of which is secured by a first lien on real estate properties. The real properties securing our outstanding mortgages payable have an aggregate carrying value of approximately \$352 million before accumulated depreciation. The mortgages bear interest at fixed rates ranging from 5.13% to 8.8%, and mature between 2007 and 2037. In addition, we had one loan payable outstanding with a principal amount of \$6.6 million, bearing interest at 6.25% and maturing in 2018.



## Results of Operations

### Comparison of Six and Three Months Ended June 30, 2007 and 2006

#### *Revenues*

Rental income increased by \$3.4 million, or 21.4%, to \$19.2 million for the six months ended June 30, 2007 from \$15.8 million for the six months ended June 30, 2006. For the three months ended June 30, 2007, rental income increased by \$1 million, or 12.6%, to \$9.6 million from \$8.6 million for the six and three months ended June 30, 2006. The increase in rental income is primarily due to rental revenues earned during the six and three months ended June 30, 2007 on 22 properties acquired by us between April 2006 and December 2006.

#### *Operating Expenses*

Depreciation and amortization expense increased by \$910,000, or 27.9%, and \$319,000, or 18.1%, to \$4.2 million and \$2.1 million for the six and three months ended June 30, 2007. The increase in depreciation and amortization expense was due to the acquisition of 22 properties between April 2006 and December 2006.

General and administrative expenses increased by \$597,000, or 22.2%, to \$3.3 million for the six months ended June 30, 2007. The increase was due to a number of factors, including an increase of \$399,000 resulting from the implementation of the Compensation and Services Agreement which became effective on January 1, 2007. This agreement, pursuant to which the Company's obligations under a Shared Services Agreement were assumed by Majestic Property Management Corp., a related party, requires that the services of all affiliated executive, administrative, legal, accounting and clerical personnel that we use on an "as-needed", part time basis, as well as certain property management services, property acquisition, sales and leasing and mortgage brokerage services be provided to us by Majestic Property Management Corp. for an annual fee. The increase in general and administrative expenses in the six months ended June 30, 2007 also includes a \$162,000 increase in professional fees primarily due to \$83,000 paid to an independent compensation consultant retained by the Compensation Committee of our Board of Directors and increases in various other legal and accounting fees. Additionally, in the six months ended June 30, 2007, general and administration expenses increased due to a \$100,000 increase in our chairman's fee pursuant to the Compensation and Services Agreement, a \$182,000 increase in compensation expense relating to our restricted stock program and a \$73,000 increase in payroll and payroll related expenses, primarily resulting from an additional employee and salary increases. These increases were offset by a \$349,000 decrease in professional fees incurred in connection with investigations by the Securities and Exchange Commission and our Audit Committee (described in Note 12) and legal fees relating to a civil litigation arising out of the activities of our former president and chief executive officer.

General and administrative expenses increased by \$5,000 to \$1,588,000 for the three months ended June 30, 2007. The increase was due to a number of factors, including an increase of \$155,000 resulting from the implementation of the Compensation and Services Agreement, as well as a \$50,000 increase in our chairman's fee. Additionally, the three months ended June 30, 2007 included a \$129,000 increase in compensation expense related to our restricted stock program and a \$25,000 increase in payroll and payroll related expenses. These increases were offset by a \$357,000 decrease in professional fees incurred in connection with investigations by the Securities and Exchange Commission and our Audit Committee (described in Note 12) and legal fees relating to a civil litigation arising out of the activities of our former president and chief executive officer.

The six and three months ended June 30, 2007 includes \$50,000 and \$14,000, respectively, of federal excise tax based on taxable income generated but not yet distributed. There was no such tax in the six and three months ended June 30, 2006.

Real estate expenses decreased by \$5,000, or 3.7%, and \$19,000, or 24.4% for the six and three months ended June 30, 2007, resulting primarily from operating expenses incurred in 2006 relating to two properties.

#### *Other Income and Expenses*

Our equity in earnings of unconsolidated joint ventures decreased by \$1,385,000, or 82.5%, and \$754,000, or 83.5%, to \$293,000 and \$149,000 for the six and three months ended June 30, 2007, respectively. These decreases resulted from the reduction in income producing properties following the September and October 2006 sales of nine movie theater properties by two of our unconsolidated joint ventures. These properties had generated income of \$1,461,000 and \$799,000 in the six and three months ended June 30, 2006. This decrease was offset in part by an increase in our equity share of earnings from four of our other unconsolidated joint ventures.

Gain on disposition of real estate of unconsolidated joint venture results from the sale of the last real estate asset owned by one of our movie theater joint ventures. This vacant parcel of land, located in Monroe, New York, was sold for a consideration of \$1.25 million to a former tenant of the joint venture as part of an overall settlement of a litigation with that former tenant. See Note 12. The joint venture recognized a gain of \$1.2 million, of which our 50% share is \$583,000.

Interest and other income increased by \$785,000, or 302%, and \$417,000, or 948%, to \$1,045,000 and \$461,000 for the six and three months ended June 30, 2007. The increase in interest and other income for the six and three months ended June 30, 2007 results substantially from our investment in short-term cash equivalents of the distributions received from the movie theater joint ventures upon the sale of its nine theater properties in September and October 2006. Also contributing to the increase in interest and other income in the six months ended June 30, 2007 is a \$118,000 gain on sale of available-for-sale securities.

Interest expense increased by \$1.6 million, or 26.4%, and \$519,000 or 16.1%, to \$7.5 million and \$3.7 million for the six and three months ended June 30, 2007. This increase results from mortgages placed on ten properties between April 2006 and December 2006 and the assumption of a mortgage in connection with the purchase of 11 properties in April 2006.

Amortization of deferred financing costs increased by \$30,000, or 10.3%, and \$8,000, or 5.3%, to \$320,000 and \$159,000 for the six and three months ended June 30, 2007. The increase results from the amortization of deferred mortgage costs during the six and three months ended June 30, 2007 resulting from mortgages placed on 21 properties between April 2006 and December 2006.

During February 2006, we sold an option to buy an interest in certain property adjacent to one of our properties and recognized a gain on the sale of \$227,000.

#### *Discontinued Operations*

Discontinued operations decreased by \$589,000, or 85.4%, and \$557,000, or 101%, to \$101,000 and (\$4,000) for the six and three months ended June 30, 2007. The six and three months ended June 30, 2006 includes net operating income of \$295,000 and \$158,000, respectively, from a property we sold in October 2006 and a \$400,000 settlement of a claim made by us against a title insurance company regarding the purchase of one of our properties in a prior year, which was sold in 2005. This decrease was offset in part by our receipt of an insurance settlement for another property (sold in a prior year) in the three months ended March 31, 2007.



### Liquidity and Capital Resources

We had cash and cash equivalents of approximately \$32.7 million at June 30, 2007. Our primary sources of liquidity are cash and cash equivalents, cash generated from operating activities, including mortgage financings and property dispositions, and our revolving credit facility. We have a \$62.5 million revolving credit facility with VNB New York Corp., Bank Leumi USA, Manufacturers and Traders Trust Company and Israel Discount Bank of New York. The facility is available to us to pay down existing and maturing mortgages, to fund the acquisition of properties or to invest in joint ventures. The facility matures on March 31, 2010. Borrowings under the facility bear interest at the lower of LIBOR plus 2.15% or the bank's prime rate, and there is an unused facility fee of one-quarter of 1% per annum. Net proceeds received from the sale or refinancing of properties are required to be used to repay amounts outstanding under the facility if proceeds from the facility were used to purchase or refinance such properties. There is no outstanding balance at June 30, 2007.

We actively engage in seeking additional property acquisitions and we are involved in various stages of negotiation with respect to the acquisition of additional properties. We will fund our future real estate acquisitions by using available cash and cash equivalents, cash provided from operations, cash provided from mortgage financings and property dispositions and funds available under our credit facility.

We had no outstanding contingent commitments, such as guarantees of indebtedness, or any other contractual cash obligations, other than mortgage and loan payable debt, at June 30, 2007.

### *Cash Distribution Policy*

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute currently at least 90% of our ordinary taxable income to our stockholders. It is our current intention to comply with these requirements and maintain our REIT status. As a REIT, we generally will not be subject to corporate federal, state or local income taxes on taxable income we distribute currently (in accordance with the Internal Revenue Code and applicable regulations) to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal, state and local income taxes at regular corporate rates and may not be able to qualify as a REIT for four subsequent tax years. Even if we qualify as a REIT for federal taxation purposes, we may be subject to certain state and local taxes on our income and to federal income taxes on our undistributed taxable income (i.e., taxable income not distributed in the amounts and in the time frames prescribed by the Internal Revenue Code and applicable regulations thereunder) and are subject to federal excise taxes on our undistributed income.

It is our intention to pay to our stockholders no less than 90% of our taxable income within the time periods prescribed by the Internal Revenue Code. It will continue to be our policy to make sufficient cash distributions to stockholders in order for us to maintain our REIT status under the Internal Revenue Code.

In 2006, we recognized a significant capital gain, primarily due to the sale of our movie theater portfolio. Under the Internal Revenue Code, we are required to either pay the federal income tax applicable to the gain not distributed to our stockholders (at corporate rates) or to distribute the entire gain to our stockholders who would then pay federal income taxes substantially at the individual capital gains rate. In order to avoid the income tax at the Company level, any portion of the gain not previously distributed must be declared as a dividend prior to the due date of our federal tax return, as extended (September 15, 2007), and paid with our October 2007 regular quarterly distribution. Our Board of Directors will consider this issue at its September 11, 2007 board meeting. Management will recommend to the Board that a special dividend of approximately \$6.7 million (\$.66 per common share), representing the portion of the gain not yet distributed, be declared at its September 11, 2007 board meeting for payment in October 2007. The special dividend, if declared by the Board, will be in addition to the regular quarterly dividend.



Item 3. - Quantitative and Qualitative Disclosures About Market Risk

All of our long-term mortgage debt bears interest at fixed rates and accordingly, the effect of changes in interest rates would not impact the amount of interest expense that we incur under these mortgages. Our credit line is a variable rate facility which is sensitive to interest rates. However, for the three months ended June 30, 2007, there was no balance outstanding on the credit line, and thus, the effect of changes in interest rates would not have impacted the amount of interest expense incurred during this period.

Item 4. - Controls and Procedures

As required under Rules 13a-15 (e) and 15d-15 (e) under the Securities Exchange Act of 1934, as amended, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of June 30, 2007 are effective.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the three months ended June 30, 2007 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

In July 2005, our former president and chief executive officer, who was also a member of our board of directors, resigned following the discovery of what appeared to be inappropriate financial dealings by him with a former tenant of a property owned by a joint venture in which we are a 50% partner and the managing member. We reported this matter to the Securities and Exchange Commission in July 2005. The Audit Committee of the Board of Directors conducted an investigation of this matter and related matters and retained special counsel to assist the committee in its investigation. This investigation was completed, and the Audit Committee and its special counsel, based on the materials gathered and interviews conducted, found no evidence that any officer or employee of our company (other than the former president and chief executive officer) was aware of, or knowingly assisted, our former president and chief executive officer's inappropriate financial dealings.

In June 2006, we announced that we had received notification of a formal order of investigation from the SEC. Management believes that the matters being investigated by the SEC focus on the improper payments received by our president and chief executive officer. The SEC also requested information regarding "related party transactions" between us and entities affiliated with us and with certain of our officers and directors and compensation paid to certain of our officers by these affiliates. The SEC and our Audit Committee have conducted investigations concerning these issues. We believe that these investigations have been substantially completed.

In August 2005, the former tenant commenced litigation in the Supreme Court of the State of New York, Nassau County against us, certain of our affiliated entities, our former president and chief executive officer, and an entity controlled by our former president and chief executive officer. In the litigation, the former tenant alleged, as against our former president and chief executive officer, an entity controlled by him, us and our affiliated entities, fraud, breach of contract, intentional tort, negligent supervision, respondeat superior, negligent misrepresentation, tortious interference with prospective economic relations and conduct in violation of the Racketeer Influenced and Corrupt Organizations Act ("RICO"). On the same date that the complaint was filed against us and our affiliated entities, we filed suit in the Supreme Court of the State of New York, Nassau County against our former tenant, the former tenant's principal, our former president and chief executive officer, an entity controlled by him and others. Our complaint alleged conspiracy to defraud, commercial bribery, fraud, breach of fiduciary duty, tortious interference, intentional tort, violation of the New York Enterprise Corruption Act, respondeat superior, unjust enrichment and violations of RICO.

The two actions were consolidated for all purposes on motion by both parties. On March 14, 2007, the consolidated actions were settled with respect to all parties, except that the action brought by us against our former president and chief executive officer and persons affiliated with him is continuing. Under the terms of the settlement agreement, a designee of the former tenant purchased, from a joint venture in which we are a 50% joint venture partner, a vacant property located in Monroe, New York, for a consideration of \$1,250,000 and the parties exchanged releases.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of the Company was held on June 12, 2007.

The following persons were elected Directors at the Annual Meeting:

Name	Votes For	Votes Against	Votes Withheld
Joseph A. Amato	9,446,410	195,748	0
Jeffrey Gould	9,410,299	231,859	0
Matthew Gould	9,457,202	184,956	0
J. Robert Lovejoy	9,502,437	139,721	0

Joseph A. Amato, Jeffrey Gould, Matthew Gould and J. Robert Lovejoy were elected to serve until the Company's 2010 Annual Meeting.

The following persons continued in office as Directors after the meeting:

Name	Term of Office Until
Charles Biederman	2008 Annual Meeting
Patrick J. Callan, Jr.	2008 Annual Meeting
James J. Burns	2009 Annual Meeting
Joseph A. DeLuca	2009 Annual Meeting
Fredric H. Gould	2009 Annual Meeting
Eugene I. Zuriff	2009 Annual Meeting

At the 2007 Annual Meeting, the stockholders also voted on the ratification of the appointment of Ernst & Young, LLP as the registrant's independent registered public accounting firm for 2007. 9,609,816 votes were cast in favor of the selection of Ernst & Young, LLP as the independent registered public accounting firm for the year ended December 31, 2007, 19,150 votes were cast against the proposal and 13,192 votes abstained with respect to the proposal.



Item 6. Exhibits

- Exhibit 31.1 Certification of Chairman of the Board and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed with this Form 10-Q.)
- Exhibit 31.2 Certification of President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed with this Form 10-Q.)
- Exhibit 31.3 Certification of Senior Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed with this Form 10-Q.)
- Exhibit 32.1 Certification of Chairman of the Board and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed with this Form 10-Q.)
- Exhibit 32.2 Certification of President pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed with this Form 10-Q.)
- Exhibit 32.3 Certification of Senior Vice President and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed with this Form 10-Q.)

**ONE LIBERTY PROPERTIES, INC.**

**SIGNATURES**

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

One Liberty Properties, Inc.  
(Registrant)

August 8, 2007  
Date

/s/ Patrick J. Callan, Jr.

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Patrick J. Callan, Jr.  
President  
(authorized officer)

August 8, 2007  
Date

/s/ David W. Kalish

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David W. Kalish  
Senior Vice President and  
Chief Financial Officer  
(principal financial officer)