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

FORM 10-Q

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

For the QUARTERLY PERIOD ended September 30, 2008

or

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

For the transition period from _____ to _____

Commission file number 333-110979

SOUTHERN STAR CENTRAL CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

4700 Highway 56, Owensboro, Kentucky

(Address of principal executive offices)

04-3712210

(I.R.S. Employer
Identification No.)

42301

(Zip Code)

Registrant's telephone number, including area code: **(270) 852-5000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. *100 shares as of November 7, 2008.*

TABLE OF CONTENTS
2008 FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED September 30, 2008
SOUTHERN STAR CENTRAL CORP.

PART I. Financial Information

Item 1.	Consolidated Financial Statements and Supplementary Data (Unaudited, except December 31, 2007 Consolidated Balance Sheet)	
	Consolidated Balance Sheets	3
	Consolidated Statements of Operations	5
	Consolidated Statements of Cash Flows	7
	Notes to the Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	27
Item 4.	Controls and Procedures	27

PART II. Other Information

Item 1.	Legal Proceedings	27
Item 1A.	Risk Factors	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	28
Item 3.	Defaults Upon Senior Securities	28
Item 4.	Submission of Matters to a Vote of Security Holders.....	28
Item 5.	Other Information	28
Item 6.	Exhibits	28

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements and Supplementary Data

SOUTHERN STAR CENTRAL CORP. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (Unaudited)	December 31, 2007
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents.....	\$ 40,691	\$ 20,025
Receivables:		
Trade.....	15,167	17,041
Income taxes	1,063	1,056
Transportation, exchange and fuel gas	4,904	19,869
Other	1,832	3,642
Inventories	7,213	6,361
Deferred income taxes	7,366	7,559
Costs recoverable from customers	1,000	25,446
Prepaid expenses	1,954	3,842
Other	3,510	1,110
Total current assets	<u>84,700</u>	<u>105,951</u>
Property, Plant and Equipment, at cost:		
Natural gas transmission plant	638,715	587,241
Other natural gas plant	22,929	25,797
	<u>661,644</u>	<u>613,038</u>
Less – Accumulated depreciation and amortization...	<u>(65,955)</u>	<u>(49,239)</u>
Property, plant and equipment, net	<u>595,689</u>	<u>563,799</u>
Other Assets:		
Goodwill	324,844	324,844
Costs recoverable from customers	41,121	42,762
Prepaid expenses	811	1,026
Postretirement benefits other than pensions	11,918	10,988
Other deferred and noncurrent assets	8,473	7,975
Total other assets	<u>387,167</u>	<u>387,595</u>
Total Assets	\$ 1,067,556	\$ 1,057,345

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

SOUTHERN STAR CENTRAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (Unaudited)	December 31, 2007
	(In thousands)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Payables:		
Trade	\$ 4,703	\$ 3,407
Transportation, exchange and fuel gas	4,619	44,316
Other.....	5,112	7,598
Accrued taxes, other than income taxes	9,260	6,056
Accrued interest	6,095	5,980
Accrued payroll and employee benefits	8,793	10,248
Capitalized lease obligation due in one year	720	690
Other accrued liabilities	3,870	4,828
Total current liabilities	43,172	83,123
Long-Term Debt:		
Capitalized lease obligation	5,725	6,445
Other long-term debt	475,281	428,867
Total long-term debt.....	481,006	435,312
Other Liabilities and Deferred Credits:		
Deferred income taxes.....	65,941	57,258
Postretirement benefits other than pensions	10,800	10,188
Asset retirement obligations.....	2,570	2,450
Costs refundable to customers	12,571	11,054
Environmental remediation	1,468	2,093
Accrued pension.....	19,288	23,439
Other	267	346
Total other liabilities and deferred credits	112,905	106,828
Stockholder's Equity:		
Common stock, \$.01 par value, 100 shares issued and outstanding at September 30, 2008 and December 31, 2007	—	—
Paid-in capital	426,895	426,895
Retained earnings	3,578	5,187
Total stockholder's equity	430,473	432,082
Total Liabilities and Stockholder's Equity	\$ 1,067,556	\$ 1,057,345

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

SOUTHERN STAR CENTRAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended September 30, 2008	For the Three Months Ended September 30, 2007
	(In thousands)	
Operating Revenues:		
Transportation.....	\$ 40,960	\$ 40,444
Storage.....	5,489	5,837
Other revenue.....	266	117
Total operating revenues	<u>46,715</u>	<u>46,398</u>
Operating Costs and Expenses:		
Operations and maintenance	12,929	12,433
Administrative and general.....	9,427	8,322
Depreciation and amortization.....	7,203	6,962
Taxes, other than income taxes.....	3,541	3,915
Total operating costs and expenses	<u>33,100</u>	<u>31,632</u>
Operating Income.....	<u>13,615</u>	<u>14,766</u>
Other (Income) Deductions:		
Interest expense	8,084	7,274
Interest income.....	(271)	(347)
Miscellaneous other income, net.....	(189)	(101)
Total other deductions	<u>7,624</u>	<u>6,826</u>
Income Before Income Taxes	5,991	7,940
Provision for Income Taxes	<u>2,413</u>	<u>3,158</u>
Net Income/Total Comprehensive Income	<u>\$ 3,578</u>	<u>\$ 4,782</u>

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

SOUTHERN STAR CENTRAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
	(In thousands)	
Operating Revenues:		
Transportation.....	\$ 127,796	\$ 124,108
Storage.....	12,798	14,707
Other revenue.....	794	485
Total operating revenues	<u>141,388</u>	<u>139,300</u>
Operating Costs and Expenses:		
Operations and maintenance	36,684	32,632
Administrative and general.....	27,967	25,279
Depreciation and amortization.....	21,396	20,662
Taxes, other than income taxes.....	10,929	10,642
Total operating costs and expenses	<u>96,976</u>	<u>89,215</u>
Operating Income.....	<u>44,412</u>	<u>50,085</u>
Other (Income) Deductions:		
Interest expense	23,041	21,700
Interest income.....	(728)	(1,163)
Miscellaneous other income, net.....	(639)	(310)
Total other deductions	<u>21,674</u>	<u>20,227</u>
Income Before Income Taxes	22,738	29,858
Provision for Income Taxes	<u>8,950</u>	<u>11,838</u>
Net Income/Total Comprehensive Income	<u>\$ 13,788</u>	<u>\$ 18,020</u>

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

SOUTHERN STAR CENTRAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
	(In thousands)	
OPERATING ACTIVITIES:		
Net income	\$ 13,788	\$ 18,020
Adjustments to reconcile to net cash provided from operations:		
Depreciation and amortization	21,396	20,662
Deferred income taxes	8,727	11,080
Amortization of debt discount and expense	1,109	925
Receivables	3,684	752
Inventories	(747)	(187)
Other current assets	(338)	3,037
Payables and accrued liabilities	(271)	(3,246)
Other, including changes in noncurrent assets and liabilities	(1,362)	248
Net cash provided by operating activities	<u>45,986</u>	<u>51,291</u>
INVESTING ACTIVITIES:		
Property, plant and equipment:		
Capital expenditures, net of allowance for funds used during construction	(53,145)	(38,215)
Proceeds from sales and salvage values, net of costs of removal	(970)	1,280
Net cash used in investing activities	<u>(54,115)</u>	<u>(36,935)</u>
FINANCING ACTIVITIES:		
Proceeds from long-term debt issuance	46,065	—
Early retirement of debt	—	(3,080)
Common dividends/return of capital	(15,397)	(21,023)
Capital lease payments	(690)	(765)
Debt issuance costs	(1,183)	(52)
Premium on early retirement of debt	—	(131)
Net cash provided (used in) financing activities	<u>28,795</u>	<u>(25,051)</u>
Increase(decrease) in cash and cash equivalents	20,666	(10,695)
Cash and cash equivalents at beginning of period	20,025	37,989
Cash and cash equivalents at end of period	<u>\$ 40,691</u>	<u>\$ 27,294</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 21,748	\$ 20,874
Income tax, net	230	1,094

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

SOUTHERN STAR CENTRAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Southern Star

Southern Star Central Corp., or Southern Star, is a wholly-owned subsidiary of EFS-SSCC Holdings, LLC, or Holdings, which is indirectly owned by GE Energy Financial Services, Inc., or GE, and Caisse de dépôt et placement du Québec, or CDP.

Southern Star was incorporated in Delaware in September 2002 and operates as a holding company for its regulated natural gas pipeline operations and development opportunities. Southern Star Central Gas Pipeline, Inc., or Central, is Southern Star's only operating subsidiary and the sole source of its operating revenues and cash flows.

The term "the Company" denotes Southern Star Central Corp. and its subsidiaries.

Central

Central is an interstate natural gas transportation company that owns and operates a natural gas pipeline system located in Colorado, Kansas, Missouri, Nebraska, Oklahoma, Texas and Wyoming. The system serves customers in these seven states, including major metropolitan areas in Kansas and Missouri, its main market areas.

Central's system has a mainline delivery capacity of approximately 2.4 billion cubic feet, or Bcf, of natural gas per day and is composed of approximately 6,000 miles of mainline and branch transmission and storage pipelines including 39 compressor stations with approximately 205,000 certificated horsepower.

Central's principal service is the delivery of natural gas to local natural gas distribution companies in the major metropolitan areas it serves. At September 30, 2008, Central had transportation customer contracts with approximately 144 shippers. Transportation shippers include natural gas distribution companies, municipalities, intrastate pipelines, direct industrial users, electrical generators and natural gas marketers and producers. Central transports natural gas to approximately 565 delivery points, including distribution companies and municipalities, power plants, interstate and intrastate pipelines, and large and small industrial and commercial customers.

Central operates eight underground storage fields with an aggregate natural gas storage capacity of approximately 43 Bcf and aggregate delivery capacity of approximately 1.2 Bcf of natural gas per day. Central's customers inject natural gas into these fields when demand is low and withdraw it to supply their requirements in times of peak demand. During periods of peak demand, approximately half of the natural gas delivered to customers is supplied from these fields. Storage capacity enables Central's system to operate more uniformly and efficiently during the year, as well as allowing it to offer storage services in addition to its transportation services.

Central is subject to regulation by the Federal Energy Regulatory Commission, or FERC, under the Natural Gas Act of 1938, or NGA, and under the Natural Gas Policy Act of 1978, or NGPA, and as such, its rates and charges for the transportation of natural gas in interstate commerce, the extension, enlargement or abandonment of jurisdictional facilities, and its accounting, among other things, are subject to regulation. Central holds certificates of public convenience and necessity issued by the FERC authorizing the siting, ownership and operation of its pipelines and related facilities, including storage fields, which are considered jurisdictional and for which certificates are required or available under the NGA.

2. Basis of Presentation

All accounting and reporting policies contained herein conform with accounting principles generally accepted in the United States, or GAAP. The financial information contained herein has been prepared in accordance with rules and regulations of the Securities and Exchange Commission, or SEC. In our opinion all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation have been made to the accompanying consolidated financial statements for the three months and nine months ended September 30, 2008 and 2007.

3. Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Southern Star and its subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported on the accompanying consolidated financial statements and notes. Actual results could differ from those estimates.

Goodwill

The Company has recorded \$324.8 million of Goodwill related to the acquisition of all the outstanding capital stock of the Company by Holdings in 2005. Goodwill is not amortized and is subject to an annual impairment test (or more frequently if certain conditions exist) in accordance with Statement of Financial Accounting Standards, or SFAS, 142, "Goodwill and Other Intangible Assets."

Income Taxes

Deferred taxes are recorded under the liability method and are provided on all temporary differences between the book and tax basis of the assets and liabilities pursuant to SFAS 109, "Accounting for Income Taxes."

In June 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation, or FIN 48, "Accounting for Uncertainty in Income Taxes." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The Company adopted the provisions of this interpretation effective January 1, 2007. The adoption of FIN 48 did not have a material impact on the Company's cumulative earnings, consolidated financial position, or results of operations.

Southern Star and its affiliates operate under a Federal and State Income Tax Policy which provides that Southern Star will file consolidated tax returns on behalf of itself and its affiliates and pay all taxes shown thereon to be due. Central makes payments to Southern Star as though it were filing a separate return for its federal income tax liability. Southern Star has an obligation to indemnify its affiliates for any liability that affiliates incur for taxes of the affiliated group of which Southern Star and any of its affiliates are members under Treasury Regulations Section 1.1502-6.

Asset Retirement Obligations

In accordance with FIN 47, "Accounting for Conditional Asset Retirement Obligations," Central has recorded an asset retirement obligation, or ARO, for the remediation of asbestos existing on its system. The asbestos existing on Central's system is primarily in building materials and pipe coatings used prior to the Clean Air Act of 1973 that established the National Emission Standards for Hazardous Air Pollutants, or NESHAPs, that regulates the use of asbestos. The amount of the regulatory asset and the related ARO liability on the accompanying Consolidated Balance Sheet at September 30, 2008 was \$2.5 million and \$2.6 million, respectively. The amount of both the regulatory asset and the related ARO liability on the accompanying Consolidated Balance Sheet at December 31, 2007 was \$2.4 million.

Fair Value Measurements

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements." SFAS 157 requires companies to determine fair value based on the price that would be received to sell the asset or paid to transfer the liability to a market participant. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement.

The provisions of SFAS 157 were effective as of January 1, 2008; however, FASB Staff Position 157-2 defers the effective date for certain non-financial assets and liabilities not re-measured at fair value on a recurring basis to fiscal years beginning after November 15, 2008 or the first quarter of fiscal 2009.

SFAS 157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

As of September 30, 2008, the Company does not have any financial assets or liabilities that are measured at fair value on a recurring basis.

The adoption of SFAS 157 for non-financial assets and liabilities in fiscal 2009 could impact future estimates of value related to long-lived and intangible assets such as the annual fair value evaluation of goodwill. Management is currently evaluating the provisions of this standard and does not expect those provisions to have a material impact on its consolidated financial position or results of operation.

4. Financing

The following table sets forth the components of debt (expressed in thousands):

	September 30, 2008	December 31, 2007
6.75% Registered Notes due 2016.....	\$ 200,000	\$ 200,000
6.75% Unregistered Notes due 2016	50,000	—
6.0% Senior Notes due 2016	230,000	230,000
Capitalized lease obligation	6,445	7,135
Unamortized debt discount	(4,719)	(1,133)
Total debt	<u>481,726</u>	<u>436,002</u>
Less current capitalized lease obligation	720	690
Total long-term debt.....	<u>\$ 481,006</u>	<u>\$ 435,312</u>

8.5% Notes

Prior to April 2006, Southern Star had outstanding \$180.0 million of 8.5% Notes due 2010, or 8.5% Notes. Interest on the 8.5% Notes was payable semi-annually in February and August.

As a result of the acquisition of the Company by Holdings, the value of the 8.5% Notes was calculated at fair value and a premium of \$15.7 million was recorded in Long-term debt in 2005. This premium was being amortized over the remaining life of the 8.5% Notes.

In March 2006, Southern Star launched a tender offer pursuant to which it offered to purchase all of its outstanding 8.5% Notes. As part of this tender offer, Southern Star solicited consents to amend the indenture governing the 8.5% Notes to eliminate substantially all of the covenants and certain events of default contained in the indenture.

As a result of the tender, in April 2006, Southern Star accepted for payment \$176.9 million principal amount of the 8.5% Notes, which represented 98.29% of the outstanding aggregate principal amount of the 8.5% Notes. In June 2007, Southern Star issued a notice of full redemption to the holders of its 8.5% Notes, calling all remaining 8.5% Notes for redemption. In August 2007, Southern Star paid \$3.2 million to redeem all outstanding 8.5% Notes and recorded a loss of \$0.1 million related thereto.

6.75% Registered Notes

In April 2006, Southern Star completed a private offering of \$200.0 million aggregate principal amount of 6.75% Notes due 2016, or 6.75% Registered Notes, the proceeds of which were used to retire substantially all of the 8.5% Notes tendered pursuant to the tender offer described above, including related premiums and expenses, and to pay the issuance costs of the new offering. In connection with the offering, Southern Star entered into an indenture, dated as of April 13, 2006, by and between Southern Star and The Bank of New York Trust Company, N.A., as trustee.

In connection with the issuance of the 6.75% Registered Notes, Southern Star entered into a registration rights agreement, whereby Southern Star agreed to offer to exchange the 6.75% Registered Notes for a new issue of substantially identical notes registered under the Securities Act of 1933, as amended. The exchange offer was consummated in September 2006, at which time all notes were accepted for exchange.

Interest is payable semi-annually on March 1 and September 1 of each year. The 6.75% Registered Notes mature on March 1, 2016 and have an overall effective interest rate of 7.06%. The 6.75% Registered Notes are senior unsecured obligations and rank equal in right of payment to all of Southern Star's existing and future unsecured indebtedness and are effectively junior to any secured indebtedness of Southern Star to the extent of the value of the assets securing such indebtedness, if any.

The declaration and payments of dividends or distributions to equity holders, under the 6.75% Registered Notes indenture, is subject to, with certain limited exceptions, a minimum fixed charge coverage ratio and cumulative available cash flows from operations or a leverage ratio, subject to certain conditions, as defined in the indenture.

The 6.75% Registered Notes are subject to certain covenants that restrict, among other things, Southern Star and its subsidiaries' ability to make investments, incur additional indebtedness, pay dividends or make distributions on capital stock or redeem or repurchase capital stock, create liens, incur dividend or other payment restrictions affecting subsidiaries, merge or consolidate with other entities and enter into transactions with affiliates.

Southern Star may redeem, with the proceeds from an equity offering, up to 35% of the aggregate amount of the 6.75% Registered Notes prior to March 1, 2009, at a premium defined in the indenture. Beginning March 1, 2009, Southern Star may redeem all or part of the 6.75% Registered Notes at premiums defined in the indenture. At any time prior to March 1, 2011, Southern Star also has the right to redeem the 6.75% Registered Notes in full at a make-whole premium as defined in the indenture.

6.75% Unregistered Notes

On April 16, 2008, Southern Star completed the sale of \$50.0 million aggregate principal amount of 6.75% Senior Notes due 2016, or 6.75% Unregistered Notes, in a private placement. In connection with the offering, the Company entered into an indenture dated April 16, 2008 by and between Southern Star and The Bank of New York Trust Company, N.A., as trustee.

Interest is payable semi-annually on March 1 and September 1 of each year, beginning on September 1, 2008. The 6.75% Unregistered Notes will mature on March 1, 2016 and have an overall effective interest rate of 8.54%. The 6.75% Unregistered Notes are senior secured obligations and rank equal in rights of payment to all of Southern Star's existing and future unsecured indebtedness and are effectively junior to any secured indebtedness of Southern Star to the extent of the value of the assets securing such indebtedness, if any.

The declaration and payments of dividends or distributions to equity holders, under the indenture governing the 6.75% Unregistered Notes, is subject to, with certain limited exceptions, a minimum fixed charge coverage ratio and cumulative available cash flows from operations or a leverage ratio, subject to certain conditions, as defined in the indenture.

The 6.75% Unregistered Notes are subject to certain covenants that restrict, among other things, Southern Star and its subsidiaries' ability to make investments, incur additional indebtedness, pay dividends or make distributions on capital stock or redeem or repurchase capital stock, create liens, incur dividend or other payment restrictions affecting subsidiaries, merge or consolidate with other entities and enter into transactions with affiliates.

Southern Star may redeem, with the proceeds from an equity offering, up to 35% of the aggregate amount of the 6.75% Unregistered Notes prior to March 1, 2009, at a premium defined in the indenture. Beginning March 1, 2009, Southern Star may redeem all or part of the 6.75% Unregistered Notes at premiums defined in the indenture. At any time prior to March 1, 2011, Southern Star also has the right to redeem the 6.75% Unregistered Notes in full at a make-whole premium as defined in the indenture.

Central's 6.0% Notes

In April 2006, Central completed a private offering of \$230.0 million aggregate principal amount of 6.0% Senior Notes due 2016, or 6.0% Notes. In connection with the offering, Central entered into an indenture, dated April 13, 2006 by and between Central and The Bank of New York Trust Company, N.A., as trustee. The indenture contains customary restrictive covenants and events of default.

Interest on the 6.0% Notes is payable on June 1 and December 1 of each year. The 6.0% Notes mature on June 1, 2016 and have an overall effective interest rate of 6.17%. The 6.0% Notes are Central's senior unsecured obligations and rank equal in right of payment to all of its existing and future unsecured indebtedness and are effectively junior to the secured indebtedness of Central to the extent of the value of the assets securing such indebtedness, if any. The 6.0% Notes are structurally senior to the 6.75% Registered Notes and 6.75% Unregistered Notes.

The 6.0% Notes are subject to certain covenants that restrict, among other things, Central's ability to create liens, enter into sale and leaseback transactions or merge or consolidate with other entities.

Central has the option to call the 6.0% Notes at any time at a make-whole premium as defined in the indenture.

Capital Lease

Central has a 20-year capital lease with the Owensboro-Daviess County Industrial Development Authority, or the Authority, for use of its headquarters building in Owensboro, Kentucky. Central is the borrower under a \$9.0 million loan agreement dated as of January 1, 2004 between Central and the Authority pursuant to which the Authority financed the cost of Central's office facility in Daviess County, Kentucky. In connection with the financing, the Authority issued Series 2004A and 2004B bonds under an indenture dated as of January 1, 2004 between the Authority and U.S. Bank, National Association, as trustee. Ownership of the facility will transfer to Central for a nominal fee upon expiration of the lease in 2024. The overall effective interest rate on the obligation is 6.29%. Principal and interest are paid semi-annually. Central has the option to prepay all 2004A bonds on or after January 1, 2014 and all 2004B bonds on or after February 1, 2014.

Other

As of September 30, 2008, the Company was in compliance with the covenants of all outstanding debt instruments.

5. Commitments and Contingencies

Regulatory and Rate Matters and Related Litigation

Fuel Filing

Central recovers its actual fuel and loss in-kind from its customers through an annual fuel tracker filed with the FERC. On November 30, 2007, Central made its annual fuel filing to restate its transmission and storage fuel and loss reimbursement percentages for 2008 and true up the actual fuel and loss for the 12 months ended September 30, 2007. Several customers and state commissions intervened and some protested various aspects of the filing, including the level of gas losses Central had incurred as a result of a pipeline girth weld failure and a storage lateral line failure. On December 28, 2007, the FERC issued an Order accepting the filing, subject to refund, and directed its staff to convene a technical conference to discuss the issues raised in the protest. Subsequent to the technical conference, Central and the active parties began settlement discussions and on May 30, 2008, Central filed a Stipulation and Agreement (S&A) with the FERC, which was supported by the active parties that resolved all issues in the fuel filing. The S&A was approved by the FERC on July 3, 2008. As part of the S&A, Central will absorb 880,760 Dth of the losses described above, the majority of which will be covered by insurance. Central began purchasing the replacement gas in the third quarter of 2008 and is receiving insurance reimbursement as purchases are made. Central charged to expense less than \$0.1 million in the third quarter of 2008, representing the book value of the portion of the 880,760 Dth Central will not be able to recover related to the deductibles not covered by the insurance policy. Replacement gas purchases were completed on October 31, 2008.

General Rate Issues

On April 30, 2008, Central filed a new general rate case under the FERC Docket No. RP08-350 which became effective November 1, 2008. The general rate proceeding requests increases in Central's transportation, storage, and related rates, and also provides for changes to a number of the terms and conditions of customer service in Central's tariff. The FERC issued a Suspension Order on May 29, 2008, suspending the effectiveness of the rate increase until November 1, 2008 and assigning an Administrative Law Judge to hold a pre-hearing conference, establish a procedural schedule and preside over the case. The pre-hearing conference was held on June 10, 2008 and the parties agreed on a procedural schedule, with discovery beginning immediately, various dates for intervenor and company testimony and the hearing to begin on May 5, 2009 if the parties are unable to reach a settlement prior to the hearing. The Company began settlement negotiations in October 2008.

On October 22, 2008, the FERC issued an "Order Approving Audit Report and Directing Compliance and Other Corrective Actions" (Audit Order) in Docket No. PA08-1-000, as a result of a Compliance Audit conducted by the Division of Audits, or DA, within the Office of Enforcement of the FERC, pursuant to Section 8 of the NGA. This audit examined Central's compliance with certain FERC accounting, reporting, and transportation regulations, North American Energy Standards Board standards, and provisions of Central's FERC gas tariff.

The DA previously issued a non-public draft audit letter to Central on August 20, 2008, advising Central of its audit findings. On September 2, 2008, Central responded to the DA in writing, accepted the audit findings and stated its intention to proceed immediately with corrective actions before the issuance of the Audit Order.

The Audit Order found that Central: (1) did not file with the FERC all contracts containing material deviations from the form of service agreement in its tariff; (2) did not file all the requisite information in its index of customers or post the index in the format required by the regulations; (3) did not post for bid capacity expiring under one contract, as required by its FERC-approved tariff; (4) did not comply with certain requirements when it filed its FERC Form No. 2 with the FERC; and (5) did not post its Transactional Report and Available Capacity Report in compliance with the requirements of the FERC's regulations.

The FERC imposed no penalty on Central, and instead imposed remedial requirements only. The Audit Order noted that the findings "implicated substantive non-compliance by [Central]" and that the FERC "seriously considered pursuing the imposition of penalties for the violations." However, the FERC took into consideration Central's "willingness to take corrective action" and its "exemplary cooperation during the audit" and the fact that Central's predecessor owner, was "responsible for most of the serious violations." FERC specified corrective actions to be taken by Central, and issued the Audit Order publicly "to provide guidance to other companies similarly situated".

The Audit Order contains a list of remedies to address the DA's findings, some of which Central has either already completed or is in the process of completing. The Audit Order also contained a number of recommendations for ensuring compliance, including the implementation of a comprehensive compliance program, consistent with recent FERC policy statements.

The Audit Order required Central to file a "compliance plan" outlining the steps it will take to implement the corrective actions recommended by November 20, 2008, with quarterly reports to follow. The Audit Order also required certain information with respect to "non-conforming" shipper agreements to be filed within 120 days of the date of the Audit Order, and directed Central to file within 150 days of the Audit Order all unfiled agreements that contain non-conforming terms and conditions. As there were no monetary penalties levied, and although there will be costs and time spent by Central on implementing the Audit Order's recommended corrective actions, the Company does not expect that this action by the FERC will have any material adverse effect on the Company's future financial position, results of operations, or cash flows.

Environmental and Safety Matters

Environmental

Central has identified polychlorinated biphenyl, or PCB, contamination in air compressor systems, soils and related properties at certain compressor station sites and has been involved in negotiations with the U.S. Environmental Protection Agency, or EPA, and state agencies to develop screening, sampling and cleanup programs. In addition, negotiations with certain environmental agencies concerning investigative and remedial actions relative to potential mercury contamination at certain natural gas metering sites have commenced. Central had accrued a liability of approximately \$2.5 million at

September 30, 2008 and \$3.1 million at December 31, 2007, representing the current estimate of future environmental cleanup costs, most of which is expected to be incurred over the next three to four years.

Central is subject to federal, state and local statutes, rules and regulations relating to environmental protection, including the National Environmental Policy Act, the Clean Water Act, the Clean Air Act and the Resource Conservation and Recovery Act. These laws and regulations can result in capital, operating and other costs. These laws and regulations generally subject Central to inspections and require it to obtain and comply with a wide variety of environmental licenses, permits and other approvals. Under the Clean Air Act, the U.S. Environmental Protection Agency, or EPA, has promulgated regulations addressing emissions from equipment present at typical natural gas compressor stations. These regulations include National Emission Standards for Hazardous Air Pollutants, or NESHAPs, for reciprocating internal combustion engines, stationary turbines, and glycol dehydration equipment in addition to regulations that address regional transport of ozone. Based on analysis of these regulations, management does not expect there to be a material impact to Central's existing operations. Additionally, all of Central's facilities are located in areas currently designated as being in "attainment" of all National Ambient Air Quality Standards (NAAQS). However, on March 12, 2008, the EPA issued more stringent NAAQS for ozone. Certain of our facilities are located in areas that may not be in attainment with the revised ozone NAAQS. Management does not expect that these revisions to the ozone NAAQS will have a material impact to Central's existing operations.

Central considers environmental assessment, remediation costs and costs associated with compliance with environmental standards to be recoverable through rates, as they are prudent costs incurred in the ordinary course of business. The actual costs incurred will depend on the actual amount and extent of contamination discovered, the final cleanup standards mandated by the EPA or other governmental authorities, and other factors.

Legal Issues

United States ex rel, Grynberg v. Williams Natural Gas Company, et al., MDL Docket No. 1293 (99 MD 1614), Civil Action No. 97 D 1478, (District of Colorado), or Grynberg Litigation

In 1998, Jack Grynberg, an individual, sued Central and approximately 300 other energy companies, purportedly on behalf of the federal government, or *qui tam*. Invoking the False Claims Act, Grynberg alleged that the defendants had mismeasured the volume and wrongfully analyzed the heating content of natural gas, causing underpayments of royalties to the United States. The relief sought was an unspecified amount of royalties allegedly not paid to the federal government, treble damages, or civil penalty, attorney fees and costs. Thus far, the Department of Justice has declined to intervene in Grynberg's *qui tam* cases, which were consolidated for pretrial purposes before a single judge in the United States District Court, or Trial Court, for the District of Wyoming. Initial discovery was limited to public disclosure/original source jurisdictional issues. On June 4, 2004, motions, with supporting briefs, were filed by the Joint Defendants requesting the Trial Court to dismiss Grynberg's claims based on lack of subject matter jurisdiction. Those motions were fully briefed and oral arguments occurred on March 17 and 18, 2005. On May 13, 2005, the Special Master appointed to adjudicate procedural issues and help manage the consolidated litigation for the Trial Court Judge, issued his "Report and Recommendations" addressing which Grynberg claims against which defendants should be dismissed. Central was one of the defendants as to which the Special Master recommended that Grynberg's claims be dismissed on jurisdictional grounds. Both Grynberg and a number of the defendants filed objections to the Special Master's report. On October 20, 2006, the Trial Court Judge entered his "Order on Report and Recommendations of Special Master" dismissing Grynberg's claims against Central and substantially all of the other defendants. Grynberg's counsel has filed notices of appeal with the United States Court of Appeals for the Tenth Circuit, where his appeals are now pending as *In re Natural Gas Royalties Qui tam Litigation*, Case No. 06-8099. Oral argument occurred on September 25, 2008. The parties are awaiting the Trial Court's ruling(s) on the defendants' motions for attorneys' fees and costs, which were the subject of a hearing held on April 24, 2007.

Will Price, et al. v. El Paso Natural Gas Co., et al., Case No. 99 C 30, District Court, Stevens County, Kansas, or Price Litigation I

In this putative class action filed May 28, 1999, the named plaintiffs, or Plaintiffs, have sued over 50 defendants, including Central. Asserting theories of civil conspiracy, aiding and abetting, accounting and unjust enrichment, their Fourth Amended Class Action Petition alleges that the defendants have undermeasured the volume of, and therefore have underpaid for, the natural gas they have obtained from or measured for Plaintiffs. Plaintiffs seek unspecified actual damages, attorney fees, pre- and post-judgment interest, and reserved the right to plead for punitive damages. On August 22, 2003, an answer to that pleading was filed on behalf of Central. Despite a denial by the court on April 10, 2003 of their original motion for class

certification, the Plaintiffs continue to seek the certification of a class. The Plaintiffs' motion seeking class certification for a second time was fully briefed and the court heard oral argument on this motion on April 1, 2005. In January 2006, the court heard oral argument on a motion to intervene filed by a third party who is claiming entitlement to a portion of any recovery obtained by Plaintiffs. It is unknown when the court will rule on the pending motions.

Will Price, et al. v. El Paso Natural Gas Co., et al., Case No. 03 C 23, District Court, Stevens County, Kansas, or Price Litigation II

In this putative class action filed May 12, 2003, the named Plaintiffs from Case No. 99 C 30 (discussed above) have sued the same defendants, including Central. Asserting substantially identical legal and/or equitable theories, as in Price Litigation I, this petition alleges that the defendants have undermeasured the British thermal units, or Btu, content of, and therefore have underpaid for, the natural gas they have obtained from or measured for Plaintiffs. Plaintiffs seek unspecified actual damages, attorney fees, pre- and post-judgment interest, and reserved the right to plead for punitive damages. On November 10, 2003, an answer to that pleading was filed on behalf of Central. The Plaintiffs' motion seeking class certification, along with Plaintiff's second class certification motion in Price Litigation I, was fully briefed and the court heard oral argument on this motion on April 1, 2005. In January 2006, the court heard oral argument on a motion to intervene filed by a third party who is claiming entitlement to a portion of any recovery obtained by Plaintiffs. It is unknown when the court will rule on the pending motions.

Summary of Commitments and Contingencies

In connection with the purchase of Central by Southern Star from The Williams Companies, Inc., or Williams, in 2002, a Litigation Cooperation Agreement was executed pursuant to which Williams agreed to cooperate in and assist with the defense of Central with respect to the Grynberg Litigation and the Price Litigations. Pursuant to that agreement, Williams agreed to provide information and data to Central, make witnesses available as necessary, assist Central in becoming a party to certain Joint Defense Agreements, and to cooperate in general with Central in the preparation of its defense.

The Company is subject to claims and legal actions in the normal course of business in addition to those disclosed above. While no assurances can be given, management believes, based on advice of counsel and after consideration of amounts accrued, insurance coverage, potential recovery from customers and other indemnification arrangements, that the ultimate resolution of these matters will not have a material adverse effect upon the Company's future financial position, results of operations, or cash flow requirements. Costs incurred to date of defending pending cases have not been material.

6. Income Taxes

The Company's effective tax rate for the nine months ended September 30, 2008 was 39.4% compared to 39.7% for the same period ended September 30, 2007. The effective tax rate in excess of the federal statutory rate of 35.0% was primarily due to the impact of state income taxes.

The use of net operating loss carryforwards occurring prior to the acquisition of the Company by Holdings has annual limitations under Section 382 of the Internal Revenue Code, based upon the product of the value of Southern Star at the date of acquisition times the federal long-term tax-exempt interest rate (4.2%), as generally defined under Section 1274(d) of the Internal Revenue Code. The limitation on the use of pre-acquisition net operating losses is \$18.6 million computed on an annual basis.

In accordance with FIN 48, the Company previously recorded interest expense related to uncertain tax positions. Any interest expense and penalties relating to FIN 48 are recognized as part of Interest expense and Miscellaneous expense, respectively, on the accompanying Consolidated Statements of Operations. On June 30, 2008, the Company filed with the Internal Revenue Service (IRS) an application for an automatic change in accounting method commencing with the tax year beginning January 1, 2007. This change in accounting method resulted in an adjustment to income of \$0.08 million, which effectively reversed the accrued liability previously recorded for interest related to uncertain tax positions. The Company currently does not have a liability for tax penalties.

As of September 30, 2008, the Company remained subject to examination by Federal and State jurisdictions for the tax years beginning November 16, 2002 and forward, in some cases due to net operating losses carried forward. There are currently no income tax audits in process or scheduled in the future.

7. Dividends and Related Restrictions

Certain of the Company's debt instruments contain restrictions on declaration and payments of dividends or distributions to equity holders, subject to a minimum fixed charge coverage ratio and cumulative available cash flows from operations or a leverage ratio, subject to certain conditions, as defined in the related debt agreements.

8. Employee Benefit Plans

SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" requires companies to recognize the funded status of their defined benefit pension and other postretirement benefit plans as a net liability or asset in their balance sheets and to recognize changes in that funded status in the year in which changes occur through comprehensive income. As it is appropriate for the Company to apply the accounting prescribed by SFAS 71, "Accounting for the Effects of Certain Types of Regulation," the Company will not recognize changes in the funded status in comprehensive income but as changes to the related regulatory asset or liability, pending future recovery or refund through its rates.

Pursuant to SFAS 158, no portion of the pension liability is classified as a current liability because plan assets exceed the value of benefit obligations expected to be paid within the 12 months ending September 30, 2009. No plan assets are expected to be returned to the Company during the 12 months ending September 30, 2009.

Pursuant to the terms of Central's RP04-276 rate settlement, Central recovers \$7.5 million annually to fund pension and postretirement benefits for all eligible participants. This amount must be funded no less frequently than quarterly into irrevocable trusts. This amount also includes a recovery for the amortization of the regulatory asset related to the difference in prior period costs and corresponding funding amounts.

Retirement Plan

Pension expense for the Company's pension plans was \$5.6 million for each of the nine month periods ended September 30, 2008 and 2007.

Components of the Company's net periodic pension expense for the indicated plans are as follows (expressed in thousands):

Union Retirement Plan

	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
Components of net periodic pension expense:		
Service cost	\$ 929	\$ 952
Interest cost	1,352	1,378
Expected return on plan assets	(818)	(909)
Employee transfers	(232)	(263)
Settlement recognition	225	50
Regulatory recovery of costs	4,169	2,734
Net periodic pension expense	<u>\$ 5,625</u>	<u>\$ 3,942</u>

Non-Union Retirement Plan

	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
Components of net periodic pension expense:		
Service cost	\$ 1,887	\$ 1,840
Interest cost	685	489
Expected return on plan assets	(605)	(499)
Employee transfers	232	263
Regulatory accrual of costs	(2,199)	(410)
Net periodic pension expense	<u>\$ —</u>	<u>\$ 1,683</u>

The Company made contributions to the pension plans totaling \$8.1 million and \$6.9 million for the nine month periods ended September 30, 2008 and 2007, respectively. Contributions were increased in 2008 in order to achieve certain thresholds in the Plans' asset balances as established by the Pension Protection Act of 2006.

Postretirement Benefits Other than Pensions

Central's Group Medical-Health Plan, or Welfare Plan, provides medical and life insurance benefits to certain employees who retire under Central's retirement plans. The Welfare Plan is contributory for medical and contributory for some retired employees for life insurance benefits in excess of specified limits. Eligible employees under the Welfare Plan are those hired prior to various qualifying dates, the latest of which is December 31, 1995, who qualify for retirement benefits, and who meet certain service and other requirements.

The benefits for qualified union employees are funded through a trust agreement under the Southern Star Voluntary Employees' Beneficiary Association for Collectively Bargained Employees, or Union VEBA, and the benefits for qualified non-union employees are funded through a separate trust agreement under the Southern Star Voluntary Employees' Beneficiary Association for Non-Collectively Bargained Employees, or Non-Union VEBA. Funding is made in accordance with the requirements under Central's latest rate settlement with the FERC.

The following table sets forth the components of net periodic postretirement benefit costs for the periods indicated (expressed in thousands):

	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
Components of net periodic benefit expense:		
Service cost	\$ 261	\$ 350
Interest cost	1,614	1,347
Expected return on plan assets	(2,150)	(1,977)
Recognized actuarial gain	(43)	(2)
Regulatory recovery of costs	318	282
Net periodic benefit expense	<u>\$ —</u>	<u>\$ —</u>

The Company did not make any contributions to this plan for either of the nine month periods ended September 30, 2008 or 2007.

9. Related Party Transactions

Central is a party to an Operating Company Services Agreement, or Operating Services Agreement, with EFS Services, LLC, an affiliate of GE. Pursuant to the Operating Services Agreement, EFS Services, LLC provides certain consulting services to Central for a service fee of \$1.0 million per year, plus the reimbursement of reasonable expenses up to \$0.2 million in a 12-month period incurred by EFS Services, LLC in providing such services. During both of the three month periods ended September 30, 2008 and 2007, Central paid approximately \$0.3 million for service fees and expenses to EFS Services, LLC. During the first nine months of 2008 and 2007, Central paid approximately \$0.8 million for service fees and expenses to EFS Services, LLC. The Operating Services Agreement terminates at such time as GE or any of its affiliates ceases to beneficially own any securities of Holdings.

In addition, Southern Star is a party to an Administrative Services Agreement, or Services Agreement, with EFS Services, LLC to provide certain administrative services to Southern Star and Holdings. Pursuant to the terms of the Services Agreement, EFS Services, LLC is not paid a fee for its services; however, it is entitled to be reimbursed for reasonable expenses it incurs in providing such services.

Central purchases goods and services from various affiliates of GE on an arms-length basis in the normal course of its operations.

10. Employee Retention Agreements

The Company has employee retention agreements with the officers of Central. These agreements require annual payments to those employees totaling \$9.3 million over a five-year period from August 2005 for their continued employment. The Company is accruing the expenses associated with these payments ratably over the period services are being provided. The Company recorded \$1.5 million and \$1.4 million in expenses for the nine month periods ended September 30, 2008 and 2007, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

References to "Southern Star" refer to Southern Star Central Corp. and references to "we," "us," "our," and "the Company," refer to Southern Star Central Corp. and to its wholly-owned subsidiary, Southern Star Central Gas Pipeline, Inc., or Central.

This management's discussion and analysis of our financial condition and results of operations should be read in conjunction with our annual report on Form 10-K. This discussion contains forward-looking statements about our business, operations and industry that involve risks and uncertainties such as statements regarding our plans, objectives, expectations and intentions. Our future results and financial condition may differ materially from those we currently anticipate as a result of the factors we describe under "Forward Looking Statements" and elsewhere in this document.

FORWARD-LOOKING STATEMENTS

The information in this report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to anticipated financial performance, management's plans and objectives for future operations, business prospects, outcome of regulatory proceedings, market conditions and other matters. Words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "objective," and other similar expressions identify some of the statements that are forward-looking. These statements are based on management's beliefs and assumptions and on information currently available to management. Actual results could differ materially from those contemplated by the forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with such statements, factors that could cause actual results to differ materially from those contemplated in any forward-looking statement include, among others, the following:

- future utilization of pipeline capacity, which can depend on energy prices and the prices for natural gas available on our system, competition from other pipelines and alternative fuels, the general level of natural gas demand, decisions by customers not to renew expiring natural gas transportation contracts, adequate supplies of natural gas, the construction or abandonment of natural gas customer facilities, weather conditions and other factors beyond our control;
- operational risks and limitations of our pipeline system and of interconnected pipeline systems;
- our ability to raise capital and fund capital expenditures in a cost-effective manner;
- changes in federal, state or local laws and regulations to which we are subject, including allowed rates of return and related regulatory matters, regulatory disclosure obligations, the regulation of financial dealings between us and our affiliates, and tax, environmental and employment laws and regulations;
- our ability to manage costs;
- the ability of our customers to pay for our services;
- environmental liabilities that are not covered by an indemnity or insurance;
- our ability to expand into new markets as well as our ability to maintain existing markets;
- our ability to obtain governmental and regulatory approval of various expansion projects;
- the cost and effects of legal and administrative proceedings;
- the effect of accounting interpretations and changes in accounting policies;
- restrictive covenants contained in various instruments applicable to us and our subsidiaries which may restrict our ability to pursue our business strategies;
- changes in general economic, market or business conditions; and
- economic repercussions from terrorist activities and the government's response to such terrorist activities.

Other factors and assumptions not identified above, including without limitation, those described under "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2007, may also impact these forward-looking statements. The failure of those other assumptions to be realized, as well as other factors, which may or may not occur, may also cause actual results to differ materially from those projected. Except as required by law, we assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking statements.

General

All accounting and reporting policies contained herein conform with accounting principles generally accepted in the United States. The financial information contained herein has been prepared in accordance with the rules and regulations of the SEC.

Southern Star

Southern Star Central Corp., or Southern Star, is a wholly-owned subsidiary of EFS-SSCC Holdings, LLC, or Holdings, which is indirectly owned by GE Energy Financial Services, Inc., or GE, and Caisse de dépôt et placement du Québec, or CDP.

Southern Star was incorporated in Delaware in September 2002 and operates as a holding company for its regulated natural gas pipeline operations and development opportunities. Southern Star Central Gas Pipeline, Inc., or Central, is Southern Star's only operating subsidiary and the sole source of its operating revenues and cash flows.

The terms "we", "us", "our" and "the Company" denote Southern Star Central Corp. and its subsidiaries.

The Business

Southern Star is the parent company of Central, its only operating subsidiary and the sole source of its operating revenues and cash flows. Central owns and operates an approximately 6,000 mile natural gas pipeline and associated natural gas storage facilities in the Midwest. Central's primary markets are regulated local natural gas distribution companies, municipalities, intrastate pipelines, electric generation plants and industrial customers in Missouri, Kansas, Oklahoma, and parts of Colorado, Nebraska, Wyoming, and Texas.

Central is an interstate natural gas pipeline engaged in the transportation and storage of natural gas. As such, Central's rates, facilities and services are regulated by the FERC. Central's services are provided under both short-term and long-term contracts, subject to a FERC-accepted tariff which governs substantially all terms and conditions of service. The substantial majority of Central's business is conducted under long-term contracts ranging from one to 28 years. Total average remaining contract life on a volume-weighted basis at September 30, 2008 was approximately six years.

On April 30, 2008, Central filed a general rate case under FERC Docket No. RP08-350 which became effective November 1, 2008.

Central's rates are regulated by the FERC and are designed to provide an allowed rate of return on equity after recovering its costs of service, assuming that its service and contract levels remain constant. As such, Central's opportunities to grow profits and cash flows are generally limited to its ability to acquire new business on its existing pipeline system or expand into new areas or services. Expansion of its pipeline system or provision of new services generally requires authorization from the FERC. Our risk of declining profits or cash flows are primarily related to Central's ability to maintain its current service levels at its current rates, including the renewal of long-term contracts on substantially equivalent terms, and our ability to prudently manage our costs. We expect to continue to manage our operating costs and to renew expiring contracts on favorable terms.

Pipeline and storage integrity regulations continue to increase our operating costs for integrity testing, permitting, and other compliance with new regulations. Central remains on schedule to meet all compliance regulations and expects that operating costs associated with such regulations will continue to be recovered in the rates it charges for its services.

Central's ability to maintain current service levels at its current rates is impacted by both its access to natural gas supplies and competition. Central's access to multiple sources of natural gas supply and its unique storage capabilities, due to the strategic location of its storage facilities within its major market areas, are strengths that aid in limiting our downside risks. Central's focus on offering flexibility to customers in regard to supply access is evidenced by its recent and current supply initiatives. Competing interstate pipelines generally offer less diverse geographic access to natural gas supply and less competitively priced, flexible on-system storage.

We proactively seek growth opportunities that will further strengthen our financial position and results of operations. The costs we incur for many of our growth opportunities are reimbursed by the operator of the gas supply or delivery point. Expansion projects are generally supported through cost reimbursement or through long-term firm contract commitments. In 2007, we began construction on the Westar Emporia and Midwest Goodman pipeline and measurement facilities expansion projects at estimated total costs of \$10.0 million and \$5.4 million, respectively. We have invested approximately \$6.1 million during 2008 for planned expansion projects, which includes \$3.6 million to complete the Westar Emporia project, \$0.8 million to complete the Midwest Goodman project, and \$1.7 million to complete the Atmos Energy project, which will update existing facilities to handle increased capacity.

Critical Accounting Policies

Our discussion and analysis of our financial condition, results of operations, liquidity, and capital resources is based on our financial statements, which have been prepared in accordance with GAAP. GAAP requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. We base these estimates on historical experience and on various other assumptions that we consider reasonable under the circumstances. We evaluate our estimates on an on-going basis. Actual results may differ from these estimates. There have not been significant changes to our Critical Accounting Policies as included in our 2007 Annual Report on Form 10-K filed with the SEC on March 19, 2008.

Results of Operations

Results of operations for all periods presented include the operations of Central, our only operating subsidiary. The following discussion relating to the changes in our results of operations includes only material line items from the accompanying Consolidated Statements of Operations or line items with a material change.

Comparison of the Three Months Ended September 30, 2008 and 2007

Operating revenues were \$46.7 million and \$46.4 million for the three month periods ended September 30, 2008 and 2007, respectively, a \$0.3 million, or 0.7%, increase. The increase in revenues is primarily due to an increase in transportation revenues resulting from additional firm transportation agreements and an increase in interruptible services, partially offset by a decrease in storage revenues resulting from lower amounts of inventory in storage and a decrease in park and loan revenues.

Operations and maintenance expense was \$12.9 million for the three months ended September 30, 2008, an increase of \$0.5 million, or 4.0%, from the comparable period in 2007. The increase is primarily due to higher expenses in 2008 for vehicle operations, pipeline and storage integrity management and engine repairs, partially offset by lower expenses in 2008 for environmental remediation and well testing.

Administrative and general expenses were \$9.4 million for the three months ended September 30, 2008, an increase of \$1.1 million, or 13.3%, from the comparable period in 2007. The increase is primarily due to higher expenses in 2008 for employee incentives, contractual services relating to Occupational Safety and Health Administration safety, third party damages, professional services, and group health insurance. The increase was partially offset by lower expenses in the third quarter of 2008 for independent audit services and higher 2008 expenses charged to capital.

Depreciation expense was \$7.2 million for the three months ended September 30, 2008, an increase of \$0.2 million, or 3.5%, from the comparable period in 2007.

Taxes, other than income taxes, were \$3.5 million and \$3.9 million for the three month periods ended September 30, 2008 and 2007, respectively, a \$0.4 million, or 9.6% decrease. The decrease is primarily due to lower estimates of property tax assessments in 2008 than those estimated in 2007, partially offset by higher 2008 payroll taxes.

Interest expense was \$8.1 million for the three month period ended September 30, 2008, an increase of \$0.8 million, or 11.1%, from the comparable period in 2007. The increase is primarily due to the issuance of the 6.75% Unregistered Notes in April 2008. See Note 4 of the accompanying Notes to the Consolidated Financial Statements for further discussion of interest expense.

Interest income was \$0.3 million for the three months ended September 30, 2008, a decrease of \$0.1 million, or 21.9%, from the comparable period in 2007. The decrease is primarily due to lower interest rates in the third quarter of 2008 compared to the same period in 2007.

The provision for income taxes was \$2.4 million for the three months ended September 30, 2008, a decrease of \$0.7 million, or 23.6%, from the comparable period in 2007. The decrease is commensurate with lower pre-tax income. Our effective tax rate for the third quarter 2008 was 40.3% as compared to 39.8% for the same period in 2007.

Comparison of the Nine Months Ended September 30, 2008 and 2007

Operating revenues were \$141.4 million and \$139.3 million for the nine month periods ended September 30, 2008 and 2007, respectively, a \$2.1 million, or 1.5%, increase. The increase in revenue is primarily due to increased transportation revenues, partially offset by lower storage revenues. Transportation revenues increased primarily due to additional firm transportation and park and loan services. The lower storage revenues in 2008 are the result of decreased inventories in storage due to colder climate conditions during the 2008 winter season.

Operations and maintenance expenses were \$36.7 million and \$32.6 million for the nine month periods ended September 30, 2008 and 2007, respectively, a \$4.1 million, or 12.4% increase. The increase is primarily due to higher expenses in 2008 for materials, employee relocations, vehicle operations, utilities and telephone, engine repairs, pipeline and storage integrity management, and inspections, partially offset by lower expenses in 2008 for consulting for Kansas Corporation Commission permits and environmental remediation.

Administrative and general expense was \$28.0 million for the nine month period ended September 30, 2008, an increase of \$2.7 million, or 10.6%, from the comparable period in 2007. The increase is primarily due to higher expenses in 2008 for employee incentives, group health insurance, information technology maintenance and support, third party damages, fees and permits, professional services and contractual services relating to OSHA safety. The increase was partially offset by lower expenses in 2008 for independent audit services, property and liability insurance and higher operating expenses being transferred to capital.

Depreciation expense was \$21.4 million for the nine month period ended September 30, 2008, an increase of \$0.7 million, or 3.6%, from the comparable period in 2007. The increase is primarily due to the several capital projects that have been placed in service since the third quarter 2007.

Taxes, other than income taxes, were \$10.9 million for the nine month period ended September 30, 2008, an increase of \$0.3 million, or 2.7%, from the comparable period in 2007. The increase is primarily due to higher other payroll taxes in 2008 than those in 2007.

Interest expense was \$23.0 million for the nine month period ended September 30, 2008, an increase of \$1.3 million, or 6.2% from the comparable period in 2007. The increase is primarily due to the issuance of the 6.75% Unregistered Notes in April 2008. See Note 4 of the accompanying Notes to the Consolidated Financial Statements for further discussion of interest expense.

Interest income was \$0.7 million for the nine month period ended September 30, 2008, a decrease of \$0.4 million, or 37.4%, from the comparable period in 2007. The decrease is primarily due to lower interest rates in 2008 as compared to the same period in 2007.

The provision for income taxes was \$9.0 million for the nine month period ended September 30, 2008, a decrease of \$2.9 million, or 24.4%, from the comparable period in 2007. The decrease is commensurate with lower pre-tax income. Our effective tax rate for the nine month period ended September 30, 2008 was 39.4% as compared to 39.7% for the same period in 2007.

Liquidity and Capital Resources

We believe we have sufficient liquidity to satisfy our capital and other liquidity requirements over the next 12 to 18 months. We expect to fund our capital and other liquidity requirements with cash flows from operating activities and by accessing debt markets as needed to support operations and capital expenditures.

As of November 3, 2008, we had senior long-term debt ratings of Ba2 from Moody's Investors Service and BB+ from Standard & Poor's, and Central had senior long-term debt ratings of Baa3 from Moody's Investors Service and BBB- from Standard & Poor's. Any downgrades in these ratings may increase our future borrowing costs or limit our access to capital.

Net cash provided by operating activities for the nine months ended September 30, 2008 and 2007 was \$46.0 million and \$51.3 million, respectively. Cash from operating activities was lower in 2008 primarily due to increased funding to the Company's pension plans, replacement of natural gas losses discussed in Note 5 of the accompanying Notes to the Consolidated Financial Statements, and lower operating income, excluding depreciation, in 2008. The decrease was partially

offset by lower payments of accounts payable during the 2008 period than in the same period in 2007, lower employee incentive payments in 2008 than in 2007, and higher collections of accounts receivable in 2008 than in 2007.

Net cash used in investing activities for the nine months ended September 30, 2008 and 2007 was \$54.1 million and \$36.9 million, respectively. Cash used in investing activities was higher in 2008 primarily due to higher maintenance capital expenditures.

Net cash provided by financing activities was \$28.8 million for the nine months ended September 30, 2008, as compared to net cash used in financing activities of \$25.1 million for the same period in 2007. The increase was primarily due to net cash provided by the issuance of the 6.75% Unregistered Notes in April 2008, lower 2008 dividend payments, and the 2007 redemption of all remaining 8.5% Notes.

8.5% Notes

In June 2007, we issued a notice of full redemption to the holders of our 8.5% Notes, calling all remaining 8.5% Notes. In August 2007, we paid \$3.2 million to redeem all outstanding 8.5% Notes and recorded a loss of \$0.1 million related thereto.

6.75% Registered Notes

In April 2006, we completed a private offering of \$200.0 million aggregate principal amount of 6.75% Registered Notes. In connection with the offering, we entered into an indenture, dated as of April 13, 2006, by and between us and The Bank of New York Trust Company, N.A., as trustee. In connection with the issuance of the 6.75% Registered Notes, we entered into a registration rights agreement, whereby we agreed to offer to exchange the 6.75% Registered Notes for a new issue of substantially identical notes registered under the Securities Act of 1933, as amended. The exchange offer was consummated in September 2006, at which time all notes were accepted for exchange.

Interest is payable semi-annually on March 1 and September 1 of each year. The 6.75% Registered Notes mature on March 1, 2016, and have an overall effective interest rate of 7.06%. The 6.75% Registered Notes are our senior unsecured obligations and rank equal in right of payment to all of our existing and future unsecured indebtedness and are effectively junior to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness, if any.

The declaration and payments of dividends or distributions to equity holders, under the indenture governing the 6.75% Registered Notes, is subject to, with certain limited exceptions, a minimum fixed charge coverage ratio and cumulative available cash flows from operations or a leverage ratio, subject to certain conditions, as defined in the indenture.

The 6.75% Registered Notes are subject to certain covenants that restrict, among other things, our and our subsidiaries' ability to make investments, incur additional indebtedness, pay dividends or make distributions on capital stock or redeem or repurchase capital stock, create liens, incur dividend or other payment restrictions affecting subsidiaries, merge or consolidate with other entities and enter into transactions with affiliates.

We may redeem, with the proceeds from an equity offering, up to 35% of the aggregate amount of the 6.75% Registered Notes prior to March 1, 2009, at a premium defined in the indenture. Beginning March 1, 2009, we may redeem all or part of the 6.75% Registered Notes at premiums defined in the indenture. At any time prior to March 1, 2011, we also have the right to redeem the 6.75% Registered Notes in full at a make-whole premium as defined in the indenture.

6.75% Unregistered Notes

On April 16, 2008, we completed the sale of \$50.0 million aggregate principal amount of 6.75% Senior Notes due 2016 or 6.75% Unregistered Notes, in a private placement. In connection with the offering, we entered into an indenture dated April 16, 2008 by and between us and The Bank of New York Trust Company, N.A., as trustee. The Notes were sold at a discount of \$3.9 million, resulting in net proceeds of \$44.9 million (after giving effect to \$1.1 million of issuance costs). The proceeds will be used to fund a portion of our 2008 capital expenditures.

Interest is payable semi-annually on March 1 and September 1 of each year, beginning on September 1, 2008. The 6.75% Unregistered Notes will mature on March 1, 2016, and have an overall effective interest rate of 8.54%. The 6.75% Unregistered Notes are our senior secured obligations and rank equal in rights of payment to all of our existing and future

unsecured indebtedness and are effectively junior to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness, if any.

The declaration and payments of dividends or distributions to equity holders, under the indenture governing the 6.75% Unregistered Notes, is subject to, with certain limited exceptions, a minimum fixed charge coverage ratio and cumulative available cash flows from operations or a leverage ratio, subject to certain conditions, as defined in the indenture.

The 6.75% Unregistered Notes are subject to certain covenants that restrict, among other things, our and our subsidiaries' ability to make investments, incur additional indebtedness, pay dividends or make distributions on capital stock or redeem or repurchase capital stock, create liens, incur dividend or other payment restrictions affecting subsidiaries, merge or consolidate with other entities and enter into transactions with affiliates.

We may redeem, with the proceeds from an equity offering, up to 35% of the aggregate amount of the 6.75% Unregistered Notes prior to March 1, 2009, at a premium defined in the indenture. Beginning March 1, 2009, we may redeem all or part of the 6.75% Unregistered Notes at premiums defined in the indenture. At any time prior to March 1, 2011, we also have the right to redeem the 6.75% Unregistered Notes in full at a make-whole premium as defined in the indenture.

Central's 6.0% Notes

In April 2006, Central completed a private offering of \$230.0 million aggregate principal amount of 6.0% Notes. In connection with the offering, Central entered into an indenture dated April 13, 2006 by and between Central and The Bank of New York Trust Company, N.A., as trustee. The indenture contains customary restrictive covenants and events of default.

Interest on the 6.0% Notes is payable on June 1 and December 1 of each year. The 6.0% Notes mature on June 1, 2016 and have an overall effective interest rate of 6.17%. The 6.0% Notes are Central's senior unsecured obligations and rank equal in right of payment to all of its existing and future unsecured indebtedness and are effectively junior to the secured indebtedness of Central to the extent of the value of the assets securing such indebtedness, if any. The 6.0% Notes are structurally senior to the 6.75% Registered Notes and 6.75% Unregistered Notes.

The 6.0% Notes are subject to certain covenants that restrict, among other things, Central's ability to create liens, enter into sale and leaseback transactions or merge or consolidate with other entities.

Central has the option to call the 6.0% Notes at any time at a make-whole premium as defined in the indenture.

Capital Lease

Central has a 20-year capital lease with the Owensboro-Daviess County Industrial Development Authority, for use of headquarters building in Owensboro, Kentucky. Central is the borrower under a \$9.0 million loan agreement dated as of January 1, 2004 between Central and the Authority pursuant to which the Authority financed the cost of Central's office facility in Daviess County, Kentucky. In connection with the financing, the Authority issued Series 2004A and 2004B bonds under an indenture dated as of January 1, 2004 between the Authority and U.S. Bank, National Association, as trustee. Ownership of the facility will transfer to Central for a nominal fee upon expiration of the lease in 2024. The overall effective interest rate on the obligation is 6.29%. Principal and interest are paid semi-annually. Central has the option to prepay all 2004A bonds on or after January 1, 2014 and all 2004B bonds on or after February 1, 2014.

General Rate Case

On April 30, 2008, Central filed a new general rate case under the FERC Docket No. RP08-350 which became effective November 1, 2008.

Contractual Obligations and Commitments

We have estimated capital expenditures of \$68.1 million in 2008 including approximately \$4.4 million for the Westar Emporia and Midwest Goodman expansion projects and approximately \$1.7 million for the Atmos Energy expansion project, all of which are scheduled to be completed during 2008. We expect to fund 2008 capital expenditures from our cash from operations and with the proceeds of the issuance of the 6.75% Unregistered Notes discussed above.

In addition to the capital expenditures discussed above, Central contributed \$8.1 million to its Union Retirement Plan in 2008. See Note 8 of the accompanying Notes to the Consolidated Financial Statements for further discussion of our employee benefit plans.

Contractual obligations and commitments are expected to be funded with cash flows from operating activities, and by accessing debt markets as needed.

Contingencies

See Note 5 of the accompanying Notes to the Consolidated Financial Statements for further information that may cause operating and financial uncertainties.

Effects of Inflation and Economic Conditions

Central generally has experienced increased costs in recent years due to the effect of inflation on the cost of labor, fuel, materials and supplies, and property, plant and equipment. Such increased labor, fuel, materials and supplies costs due to inflation can directly affect income through increased operating and administrative costs. The cumulative impact of inflation over a number of years has resulted in increased costs for current replacement of productive facilities. The majority of Central's property, plant, equipment and inventory is subject to ratemaking treatment, and under current FERC practices, recovery is limited to authorized historical costs. While amounts in excess of historical cost are not recoverable under current FERC practices, we believe Central will be allowed to recover and earn a return based on the increased actual costs incurred when existing facilities are replaced. Cost-based regulation, along with competition and other market factors, limits Central's ability to price services or products to reflect increased costs resulting from inflation.

In 2008, general worldwide economic conditions have experienced a downturn due to sequential effects of the subprime lending crises, general credit market crises, collateral effects on the finance and banking industries, concerns about inflation, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. These conditions make it difficult for our customers and our vendors to accurately forecast and plan future business activities, which could affect our future growth opportunities. Such conditions could also impact the credit worthiness of our customers. We cannot predict the timing or duration of any economic slowdown or the timing or strength of a subsequent recovery, worldwide, or in the specific markets we serve. If our markets significantly deteriorate due to these economic effects, our access to debt markets may be limited and our business, financial condition and results of operations could be materially and adversely affected.

In addition, our defined benefit employee benefit plans, invest in fixed income and equity securities to fund employee obligations under those plans. Therefore, if the recent decline in the equity markets continues, our future funding requirements and expense could increase over the long-term.

Other

We have entered into employee retention agreements with the officers of Central. These agreements require annual payments to those employees for their continued employment. We are accruing the expenses associated with these payments ratably over the period services are being provided. We recorded \$1.5 million and \$1.4 million in expenses for each of the nine month periods ended September 30, 2008 and 2007, respectively. The current agreements are scheduled to expire in 2010 but may be renewed annually thereafter.

At September 30, 2008, we were in compliance with the covenants of all outstanding debt instruments. See Note 4 of the accompanying Notes to the Consolidated Financial Statements for further discussion of our debt instruments.

Other

We reached an Agreement in Principle with Local 647, International Union of Operating Engineers, on July 10, 2008, for a new Collective Bargaining Agreement, or CBA, to be effective July 16, 2008. The agreement was ratified by the membership, and was signed by representatives of both parties on October 16, 2008. The agreement is a four-year contract set to expire July 15, 2012.

We operate under a Federal and State Income Tax Policy which provides that we will file consolidated tax returns on behalf of ourself and our affiliated companies and pay all taxes shown thereon to be due. Each affiliate makes payments to us as though it were filing a separate return for its federal income tax liability. We have an obligation to indemnify Central for any liability that Central incurs for taxes of the affiliated group of which we are members under Treasury Regulations Section 1.1502-6.

On October 22, 2008, the FERC issued an “Order Approving Audit Report and Directing Compliance and Other Corrective Actions” (Audit Order) in Docket No. PA08-1-000, as a result of a Compliance Audit conducted by the Division of Audits, or DA, within the Office of Enforcement of the FERC, pursuant to Section 8 of the NGA. This audit examined Central’s compliance with certain FERC accounting, reporting, and transportation regulations, North American Energy Standards Board standards, and provisions of Central’s FERC gas tariff.

The DA previously issued a non-public draft audit letter to Central on August 20, 2008, advising Central of its audit findings. On September 2, 2008, Central responded to the DA in writing, accepted the audit findings and stated its intention to proceed immediately with corrective actions before the issuance of the Audit Order.

The Audit Order found that Central: (1) did not file with the FERC all contracts containing material deviations from the form of service agreement in its tariff; (2) did not file all the requisite information in its index of customers or post the index in the format required by the regulations; (3) did not post for bid capacity expiring under one contract, as required by its FERC-approved tariff; (4) did not comply with certain requirements when it filed its FERC Form No. 2 with the FERC; and (5) did not post its Transactional Report and Available Capacity Report in compliance with the requirements of the FERC’s regulations.

The FERC imposed no penalty on Central, and instead imposed remedial requirements only. The Audit Order noted that the findings “implicated substantive non-compliance by [Central]” and that the FERC “seriously considered pursuing the imposition of penalties for the violations.” However, the FERC took into consideration Central’s “willingness to take corrective action” and its “exemplary cooperation during the audit” and the fact that Central’s predecessor owner, was “responsible for most of the serious violations.” FERC specified corrective actions to be taken by Central, and issued the Audit Order publicly “to provide guidance to other companies similarly situated”.

The Audit Order contains a list of remedies to address the DA’s findings, some of which Central has either already completed or is in the process of completing. The Audit Order also contained a number of recommendations for ensuring compliance, including the implementation of a comprehensive compliance program, consistent with recent FERC policy statements.

The Audit Order required Central to file a “compliance plan” outlining the steps it will take to implement the corrective actions recommended by November 20, 2008, with quarterly reports to follow. The Audit Order also required certain information with respect to “non-conforming” shipper agreements to be filed within 120 days of the date of the Audit Order, and directed Central to file within 150 days of the Audit Order all unfiled agreements that contain non-conforming terms and conditions. As there were no monetary penalties levied, and although there will be costs and time spent by Central on implementing the Audit Order’s recommended corrective actions, we do not expect that this action by the FERC will have any material adverse effect on our future financial position, results of operations, or cash flows.

Seasonality

Substantially all of Central’s operating revenues are generated from the collection of fixed monthly reservation fees for transportation and/or storage services. As a result, fluctuations in natural gas prices and actual volumes transported and stored have a limited impact on Central’s operating revenues. Since the fixed monthly reservation fees are generally consistent from month to month, Central’s operating revenues do not fluctuate materially from season to season.

Generally, construction and maintenance on Central’s pipeline occurs during May through October when volume throughput is usually lower than during the winter heating season. As such, operating and maintenance expenses are generally higher in the second and third quarters and the majority of our capital expenditures are incurred during this time.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our market risk is limited to interest rate risk on our long-term debt. All interest is fixed. The weighted-average interest rate of our long-term debt is 6.79%. Our \$200.0 million (6.75%), \$230.0 million (6.0%) and \$50.0 million (6.75%) long-term senior notes mature in 2016.

The \$6.8 million balance of our capital lease obligation matures serially through 2024 and carries a fixed effective interest rate of 6.29%.

Item 4. Controls and Procedures

Disclosure Controls and Procedures – As of September 30, 2008, we, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of September 30, 2008.

Changes in Internal Control Over Financial Reporting – There has been no change in our internal control over financial reporting during the three months ended September 30, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

United States ex rel, Grynberg v. Williams Natural Gas Company, et al., MDL Docket No. 1293 (99 MD 1614), Civil Action No. 97 D 1478, (District of Colorado), or Grynberg Litigation

In 1998, Jack Grynberg, an individual, sued Central and approximately 300 other energy companies, purportedly on behalf of the federal government, or *qui tam*. Invoking the False Claims Act, Grynberg alleged that the defendants had mismeasured the volume and wrongfully analyzed the heating content of natural gas, causing underpayments of royalties to the United States. The relief sought was an unspecified amount of royalties allegedly not paid to the federal government, treble damages, or civil penalty, attorney fees and costs. Thus far, the Department of Justice has declined to intervene in Grynberg's *qui tam* cases, which were consolidated for pretrial purposes before a single judge in the United States District Court, or Trial Court, for the District of Wyoming. Initial discovery was limited to public disclosure/original source jurisdictional issues. On June 4, 2004, motions, with supporting briefs, were filed by the Joint Defendants requesting the Trial Court to dismiss Grynberg's claims based on lack of subject matter jurisdiction. Those motions were fully briefed and oral arguments occurred on March 17 and 18, 2005. On May 13, 2005, the Special Master appointed to adjudicate procedural issues and help manage the consolidated litigation for the Trial Court Judge, issued his "Report and Recommendations" addressing which Grynberg claims against which defendants should be dismissed. Central was one of the defendants as to which the Special Master recommended that Grynberg's claims be dismissed on jurisdictional grounds. Both Grynberg and a number of the defendants filed objections to the Special Master's report. On October 20, 2006, the Trial Court Judge entered his "Order on Report and Recommendations of Special Master" dismissing Grynberg's claims against Central and substantially all of the other defendants. Grynberg's counsel has filed notices of appeal with the United States Court of Appeals for the Tenth Circuit, where his appeals are now pending as *In re Natural Gas Royalties Qui tam Litigation*, Case No. 06-8099. Oral argument occurred on September 25, 2008. The parties are awaiting the Trial Court's ruling(s) on the defendants' motions for attorneys' fees and costs, which were the subject of a hearing held on April 24, 2007.

Will Price, et al. v. El Paso Natural Gas Co., et al., Case No. 99 C 30, District Court, Stevens County, Kansas, or Price Litigation I

In this putative class action filed May 28, 1999, the named plaintiffs, or Plaintiffs, have sued over 50 defendants, including Central. Asserting theories of civil conspiracy, aiding and abetting, accounting and unjust enrichment, their Fourth Amended Class Action Petition alleges that the defendants have undermeasured the volume of, and therefore have underpaid for, the natural gas they have obtained from or measured for Plaintiffs. Plaintiffs seek unspecified actual damages, attorney fees, pre- and post-judgment interest, and reserved the right to plead for punitive damages. On August 22, 2003, an answer to that pleading was filed on behalf of Central. Despite a denial by the court on April 10, 2003 of their original motion for class

certification, the Plaintiffs continue to seek the certification of a class. The Plaintiffs' second motion seeking class certification was fully briefed and the court heard oral argument on this motion on April 1, 2005. In January 2006, the court heard oral argument on a motion to intervene filed by a third party who is claiming entitlement to a portion of any recovery obtained by Plaintiffs. It is unknown when the court will rule on the pending motions.

Will Price, et al. v. El Paso Natural Gas Co., et al., Case No. 03 C 23, District Court, Stevens County, Kansas, or Price Litigation II

In this putative class action filed May 12, 2003, the named Plaintiffs from Case No. 99 C 30 (discussed above) have sued the same defendants, including Central. Asserting substantially identical legal and/or equitable theories, as in Price Litigation I, this petition alleges that the defendants have undermeasured the British thermal units, or Btu, content of, and therefore have underpaid for, the natural gas they have obtained from or measured for Plaintiffs. Plaintiffs seek unspecified actual damages, attorney fees, pre- and post-judgment interest, and reserved the right to plead for punitive damages. On November 10, 2003, an answer to that pleading was filed on behalf of Central. The Plaintiffs' motion seeking class certification, along with Plaintiff's second class certification motion in Price Litigation I, was fully briefed and the court heard oral argument on this motion on April 1, 2005. In January 2006, the court heard oral argument on a motion to intervene filed by a third party who is claiming entitlement to a portion of any recovery obtained by Plaintiffs. It is unknown when the court will rule on the pending motions.

Item 1A. Risk Factors

Our 2007 Annual Report on Form 10-K includes a detailed discussion of our risk factors. No updates to this information are necessary.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

(a) None.

(b) None.

Item 6. Exhibits

(a) Exhibits

- 31.1 —Certificate of Jerry L. Morris, Chief Executive Officer of Southern Star Central Corp., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 —Certificate of Susanne W. Harris, Chief Financial Officer of Southern Star Central Corp., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 —Certificate of Jerry L. Morris, Chief Executive Officer of Southern Star Central Corp., and Susanne W. Harris, Chief Financial Officer of Southern Star Central Corp., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

SOUTHERN STAR CENTRAL CORP.

November 10, 2008

By: /S/ JERRY L. MORRIS
Jerry L. Morris
President and Chief Executive Officer

November 10, 2008

By: /s/ SUSANNE W. HARRIS
 Susanne W. Harris
 Vice President, Chief Financial Officer and Treasurer

INDEX TO EXHIBITS

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- 32 Certificate of Jerry L. Morris, Chief Executive Officer of Southern Star Central Corp., and Susanne W. Harris, Chief Financial Officer of Southern Star Central Corp., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**CERTIFICATION PURSUANT TO RULES 13a – 14(a) AND 15d – 14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Jerry L. Morris, Chief Executive Officer of Southern Star Central Corp., certify that:

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

Signature

Title

Date

By: /s/ Jerry L. Morris
Jerry L. Morris

Chief Executive Officer

November 10, 2008

**CERTIFICATION PURSUANT TO RULES 13a – 14(a) AND 15d – 14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Susanne W. Harris, Chief Financial Officer of Southern Star Central Corp., certify that:

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

Signature

Title

Date

By: /s/ Susanne W. Harris
Susanne W. Harris

Chief Financial Officer

November 10, 2008

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report on Form 10-Q of Southern Star Central Corp. (the Company), a Delaware corporation, for the quarter ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the Report), each of the undersigned, Jerry L. Morris, Chief Executive Officer of the Company, and Susanne W. Harris, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

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

The foregoing certification is provided solely for purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act of 2002 and is not intended to be used or relied upon for any other purpose.

Signature

Title

Date

By: /s/ Jerry L. Morris
Jerry L. Morris

Chief Executive Officer

November 10, 2008

By: /s/ Susanne W. Harris
Susanne W. Harris

Chief Financial Officer

November 10, 2008

A signed original of this written statement required by Section 906 has been provided to Southern Star Central Corp. and will be retained by Southern Star Central Corp. and furnished to the Securities and Exchange Commission or staff upon request.