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

**FORM 10-Q**

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

For the quarterly period ended June 30, 2010

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(Do not check if a 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 ☒

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As of August 11, 2010, there were 100 shares of common stock outstanding.

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**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010**  
**SOUTHERN STAR CENTRAL CORP.**

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\* December 31, 2009 balance sheet was derived from our audited balance sheet.

## PART I. FINANCIAL INFORMATION

### Item 1. Consolidated Financial Statements and Supplementary Data

#### SOUTHERN STAR CENTRAL CORP. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents .....	\$ 41,170	\$ 38,789
Receivables:		
Trade .....	17,405	18,985
Income taxes .....	1,462	1,748
Transportation, exchange and fuel gas .....	30,852	11,605
Other .....	956	5,497
Inventories .....	6,804	6,910
Deferred income taxes .....	2,136	2,559
Costs recoverable from customers .....	2,261	750
Prepaid expenses .....	7,104	5,190
Other .....	417	678
Total current assets .....	110,567	92,711
Property, Plant and Equipment, at cost:		
Natural gas transmission plant .....	673,953	662,316
Other natural gas plant .....	19,340	13,798
	693,293	676,114
Less – Accumulated depreciation and amortization ...	(81,270)	(68,320)
Property, plant and equipment, net .....	612,023	607,794
Other Assets:		
Goodwill .....	311,766	311,766
Costs recoverable from customers .....	50,044	49,851
Prepaid expenses .....	355	485
Postretirement benefits other than pensions .....	952	1,398
Other deferred and noncurrent assets .....	7,023	8,171
Total other assets .....	370,140	371,671
Total Assets .....	\$ 1,092,730	\$ 1,072,176

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

**SOUTHERN STAR CENTRAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	June 30, 2010 (Unaudited)	December 31, 2009
	(In thousands)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Payables:		
Trade .....	\$ 6,295	\$ 3,174
Transportation, exchange and fuel gas .....	32,363	10,019
Income taxes .....	26	368
Other.....	4,581	8,039
Accrued taxes, other than income taxes .....	6,999	6,293
Accrued interest .....	6,929	6,938
Accrued payroll and employee benefits .....	9,531	11,645
Costs refundable to customers.....	89	1,674
Capitalized lease obligation due in one year .....	490	745
Other accrued liabilities .....	1,776	2,320
Total current liabilities .....	69,079	51,215
Long-Term Debt:		
Capitalized lease obligation .....	4,865	4,980
Other long-term debt .....	476,390	476,074
Total long-term debt.....	481,255	481,054
Other Liabilities and Deferred Credits:		
Deferred income taxes.....	66,906	63,050
Postretirement benefits other than pensions .....	16,043	15,212
Asset retirement obligations.....	2,874	2,782
Costs refundable to customers .....	1,370	2,067
Environmental remediation .....	1,660	1,403
Accrued pension.....	23,593	25,495
Other .....	196	168
Total other liabilities and deferred credits .....	112,642	110,177
Stockholder's Equity:		
Common stock, \$.01 par value, 100 shares authorized and issued, 100 shares outstanding at June 30, 2010 and December 31, 2009 .....	—	—
Premium on capital stock and other paid-in capital .....	423,869	423,869
Retained earnings .....	5,885	5,861
Total stockholder's equity .....	429,754	429,730
Total Liabilities and Stockholder's Equity .....	\$ 1,092,730	\$ 1,072,176

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)**

	<b>For the Three Months Ended June 30, 2010</b>	<b>For the Three Months Ended June 30, 2009</b>
	<b>(In thousands)</b>	
Operating Revenues:		
Transportation.....	\$ 45,702	\$ 48,745
Storage.....	5,695	5,916
Other revenue.....	166	83
Total operating revenues .....	<u>51,563</u>	<u>54,744</u>
Operating Costs and Expenses:		
Operations and maintenance.....	12,394	13,216
Administrative and general.....	9,460	10,518
Depreciation and amortization.....	8,009	8,185
Taxes, other than income taxes.....	4,056	3,654
Total operating costs and expenses .....	<u>33,919</u>	<u>35,573</u>
Operating Income.....	<u>17,644</u>	<u>19,171</u>
Other (Income) Deductions:		
Interest expense .....	8,094	8,155
Interest income.....	(57)	(71)
Miscellaneous other income, net.....	(134)	(67)
Total other deductions .....	<u>7,903</u>	<u>8,017</u>
Income Before Income Taxes .....	9,741	11,154
Provision for Income Taxes .....	<u>3,857</u>	<u>4,425</u>
Net Income/Total Comprehensive Income .....	<u>\$ 5,884</u>	<u>\$ 6,729</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)**

	<b>For the Six Months Ended June 30, 2010</b>	<b>For the Six Months Ended June 30, 2009</b>
	<b>(In thousands)</b>	
Operating Revenues:		
Transportation.....	\$ 93,613	\$ 98,162
Storage.....	10,516	11,741
Other revenue.....	351	196
Total operating revenues .....	<u>104,480</u>	<u>110,099</u>
Operating Costs and Expenses:		
Operations and maintenance.....	22,749	24,298
Administrative and general.....	19,238	20,849
Depreciation and amortization.....	15,014	16,219
Taxes, other than income taxes.....	7,843	7,562
Total operating costs and expenses .....	<u>64,844</u>	<u>68,928</u>
Operating Income.....	<u>39,636</u>	<u>41,171</u>
Other (Income) Deductions:		
Interest expense .....	16,217	16,324
Interest income.....	(121)	(149)
Miscellaneous other income, net.....	(221)	(2)
Total other deductions .....	<u>15,875</u>	<u>16,173</u>
Income Before Income Taxes .....	23,761	24,998
Provision for Income Taxes .....	<u>8,803</u>	<u>9,904</u>
Net Income/Total Comprehensive Income .....	<u>\$ 14,958</u>	<u>\$ 15,094</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)**

	<b>For the Six Months Ended June 30, 2010</b>	<b>For the Six Months Ended June 30, 2009</b>
	<b>(In thousands)</b>	
<b>OPERATING ACTIVITIES:</b>		
Net income .....	\$ 14,958	\$ 15,094
Adjustments to reconcile to net cash provided by operations:		
Depreciation and amortization .....	15,014	16,219
Deferred income taxes .....	4,279	7,316
Amortization of debt discount and expense .....	841	844
Receivables .....	6,227	(1,683)
Inventories .....	106	(429)
Other current assets .....	(1,653)	2,251
Payables and accrued liabilities .....	(2,639)	(484)
Other, including changes in noncurrent assets and liabilities .....	(358)	(2,953)
Net cash provided by operating activities .....	<u>36,775</u>	<u>36,175</u>
<b>INVESTING ACTIVITIES:</b>		
Property, plant and equipment:		
Capital expenditures, net of allowance for funds used during construction .....	(21,651)	(16,597)
Proceeds from sales and salvage values, net of costs of removal .....	<u>2,585</u>	<u>156</u>
Net cash used in investing activities .....	<u>(19,066)</u>	<u>(16,441)</u>
<b>FINANCING ACTIVITIES:</b>		
Common dividends .....	(14,934)	(15,834)
Capital lease payments .....	(370)	(355)
Other financing .....	(24)	(28)
Net cash used in financing activities .....	<u>(15,328)</u>	<u>(16,217)</u>
Increase in cash and cash equivalents .....	2,381	3,517
Cash and cash equivalents at beginning of period .....	38,789	35,615
Cash and cash equivalents at end of period .....	<u>\$ 41,170</u>	<u>\$ 39,132</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest (net of amounts capitalized) .....	\$ 15,390	\$ 15,484
Income tax, net .....	4,580	4,766

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 Morgan Stanley Infrastructure Partners and certain other affiliated investment funds managed by Morgan Stanley Infrastructure, Inc., or MSIP.

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 40 compressor stations with approximately 206,000 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 June 30, 2010, Central had transportation customer contracts with approximately 175 shippers, which it services through approximately 514 delivery points. Transportation shippers include natural gas distribution companies, power generation companies, municipalities, intrastate pipelines, direct industrial users, and natural gas marketers and producers. 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**

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States, or GAAP, for interim financial reporting. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company and related footnotes for the year ended December 31, 2009, included in the Company's annual report on Form 10-K filed with the SEC on March 15, 2010.



The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. It is the opinion of management that all necessary adjustments for a fair presentation of the results of operations for the interim periods have been made and are of a recurring nature unless otherwise disclosed herein.

### **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 \$311.8 million of Goodwill as a result of the 2005 acquisition of the Company by Holdings. Goodwill is not amortized and is subject to an annual impairment test as of December 31 or more frequently if certain conditions exist in accordance with the Goodwill and Other Intangible Assets Topic of the Accounting Standards Codification, or ASC. In conducting the impairment test, the fair value of the Company is compared to its carrying value including goodwill. If the fair value exceeds the carrying amount, then no impairment exists. If the carrying amount exceeds the fair value, further analysis is performed to assess impairment.

The Company's determination of fair value is based on an income approach with an appropriate risk adjusted discount rate. Any identified impairment would result in an adjustment to the Company's results of operations.

The Company performed its most recent annual impairment test of goodwill on December 31, 2009 which resulted in no recognition of an impairment loss.

#### ***Income Taxes***

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

In accordance with the Accounting for Uncertainty in Income Taxes, the Company records interest related to uncertain tax positions as a part of Interest expense on the accompanying Consolidated Statements of Operations. Any penalties are recognized as part of Miscellaneous expense on the accompanying Consolidated Statements of Operations. The Company does not have a liability for tax penalties or interest related to uncertain tax positions.

Southern Star operates under a Federal and State Income Tax Policy that governs the allocation and payment of tax liabilities of Holdings, Southern Star and Central. This policy provides that Southern Star will file consolidated tax returns on behalf of itself, Holdings and Central and will pay all taxes shown thereon to be due. Central generally 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 Central for any liability that Central incurs for taxes of the affiliated group of which Southern Star and Central are members under Treasury Regulations Section 1.1502-6.

#### ***Asset Retirement Obligations***

In accordance with the FASB Interpretation concerning 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 June 30, 2010 was \$2.3 million and \$2.9 million respectively. The amount of the regulatory asset and the related ARO liability on the accompanying Consolidated Balance Sheet at December 31, 2009 was \$2.4 million and \$2.8 million respectively.

### ***Fair Value Measurements***

The fair value of an asset or liability is based on market-based measures that reflect the credit risk of the Company. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the relative short maturity of those instruments. The fair value of the Company's debt, based on market price, was \$492.3 million at June 30, 2010.

## **4. Financing**

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

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
6.0% Senior Notes due 2016 .....	\$ 230,000	\$ 230,000
6.75% Registered Senior Notes due 2016.....	200,000	200,000
6.75% Unregistered Senior Notes due 2016 .....	50,000	50,000
Capitalized lease obligation .....	5,355	5,725
Unamortized debt discount .....	(3,610)	(3,926)
Total debt .....	481,745	481,799
Less current capitalized lease obligation .....	490	745
Total long-term debt .....	<u>\$ 481,255</u>	<u>\$ 481,054</u>

### ***6.75% Registered Notes***

As of June 30, 2010, Southern Star had outstanding \$200.0 million of 6.75% Notes registered under the Securities Act of 1933 as amended, or 6.75% Registered Notes. The Bank of New York Trust Company, N.A. serves as trustee pursuant to the related indenture dated as of April 13, 2006. 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 Southern Star'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 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% Registered Notes are 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.

We have the right to 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% 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. The 6.75% Unregistered Notes will mature on March 1, 2016 and have an overall effective interest rate of 8.55%. The 6.75% Unregistered Notes are senior unsecured 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. All covenants, restrictions, and other terms and conditions are identical to those for the 6.75% Registered Notes described above.

We have the right to 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***

As of June 30, 2010, Central had outstanding \$230.0 million aggregate principal amount of 6.0% Senior Notes due 2016, or 6.0% Notes. The Bank of New York Trust Company, N.A. serves as trustee under the related indenture dated as of April 13, 2006. The indenture governing the 6.0% Notes contains customary restrictive covenants and events of default. 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.

Interest on the 6.0% Notes is payable semi-annually 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% Notes.

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***

In 2004, Central entered into a 20-year capital lease with the Owensboro-Daviess County Industrial Development Authority, or the Authority, for use of a 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 this 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, N.A. as trustee. Ownership of the facility will transfer to Central for a nominal fee upon expiration of the lease in 2024. Approximately \$9.5 million of assets are included in Property, plant and equipment as a capital lease and are being amortized over the same life as similar assets. Amortization of the assets is included in Depreciation and amortization in the accompanying unaudited Consolidated Financial Statements. 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 June 30, 2010, 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 the natural gas it uses for fuel on its operating system and gas losses it incurs on its system in-kind from its customers via a fuel reimbursement charge placed on the volumes of gas transported through the system. The reimbursement charge is established through an annual fuel tracker filed with the FERC.

## *General Rate Issues*

On April 30, 2008, Central filed a general rate case under FERC Docket No. RP08-350 which became effective November 1, 2008, subject to the condition that Central refund to customers any amounts it collects in excess of the rates ultimately allowed. This general rate proceeding increased Central's transportation, storage and related rates, and also provided for various changes to a number of the terms and conditions of customer services in Central's tariff. On November 17, 2008, the parties reached a settlement to resolve all issues related to this proceeding. The settlement provided for Central to bill the settlement rates beginning November 1, 2008, on an interim basis and, if approved, no refunds would be due. The settlement was filed with the FERC on December 11, 2008, and all comments filed by various parties were in support of the settlement. On January 13, 2009, the Administrative Law Judge certified the settlement to the FERC and on June 1, 2009, the FERC issued an Order approving the settlement without modification. The settlement rates were designed to increase Central's revenues approximately \$20.0 million above revenues for the 12 months ended January 31, 2008, the base period covered in its filing. Under the terms of the settlement, Central is required to file a rate case to become effective no later than December 1, 2013.

## *Environmental and Safety Matters*

### *Environmental*

Central has identified polychlorinated biphenyl 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 the 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 an undiscounted liability of approximately \$2.4 million at June 30, 2010 and \$2.2 million at December 31, 2009 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 EPA has promulgated regulations addressing emissions from equipment present at typical natural gas compressor stations. These regulations include 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. On March 5, 2009, the EPA proposed new emission standards that could apply to certain of Central's existing reciprocating engines. These regulations are scheduled to be finalized during 2010, and any compliance obligations would likely have to be completed during 2013.

On September 22, 2009, the EPA promulgated a mandatory greenhouse gas reporting rule that will impose requirements for some of Central's existing operations; however, these requirements will not have a material impact on Central's existing operations during 2010. There are also other various proposed rules and possible federal legislation related to greenhouse gas emissions that could impact Central's existing operations. Central continues to monitor the progress of these proposed rules and will determine any impact once the regulations have been promulgated.

All of Central's facilities are located in areas currently designated as being in "attainment" of all National Ambient Air Quality Standards, or 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 on Central's existing operations. Final area designations are set to be issued by the EPA in March 2011 and a more thorough assessment can be made at that time. On January 6, 2010, the EPA proposed even more stringent NAAQS for ozone. Central will continue to track these developments and any potential impact on existing operations. The final standards are currently scheduled for promulgation by August 31, 2010. The proposal included a range of values; therefore, the final standard and any related impacts are not quantifiable at this time.

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. The Department of Justice 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 filed notices of appeal with the United States Court of Appeals for the Tenth Circuit, or Appellate Court, where his appeals were docketed as *In re Natural Gas Royalties Qui Tam Litigation*, Case No. 06-8099. Oral argument occurred on September 25, 2008. On March 17, 2009, the Appellate Court affirmed the Trial Court's dismissal of Grynberg's complaints on jurisdictional grounds related to the "original source" defense asserted by Central. On March 20, 2009, Grynberg filed a motion for an extension of time to file a petition for rehearing of the Appellate Court's decision. The Court granted Grynberg's motion and he subsequently filed his petition for rehearing on April 14, 2009. On May 4, 2009, the Appellate Court denied Grynberg's petition for rehearing. On August 4, 2009, Grynberg filed a petition (Number 09-170) for certiorari review with the United States Supreme Court. On October 5, 2009, the Supreme Court denied Grynberg's petition. The parties continue to await the Trial Court's Ruling on the defendants' motion(s) for attorney's 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 under measured 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 the motion on April 1, 2005. On September 18, 2009, the Court denied the Plaintiff's most recent motion for class certification. The Plaintiffs filed a motion to reconsider that ruling on October 2, 2009. The defendants, including Central, filed a response in opposition to the Plaintiffs' motion for reconsideration on January 18, 2010. The Plaintiffs filed a reply, and oral argument, which was presented before a different judge, was heard on February 10, 2010. By order dated March 31, 2010, the Court denied the Plaintiff's October 2, 2009 motion to reconsider the earlier denial of class certification. The Plaintiffs did not file for interlocutory review of the March 31, 2010 order; however, it is unknown at this time whether the Plaintiffs intend to proceed with the merits of their claims, absent class certification or plan to move to dismiss the lawsuit.

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 under measured 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 Plaintiffs' second class certification motion in Price Litigation I, was fully briefed and the Court heard oral argument on this motion on April 1, 2005. On September 18, 2009, the Court denied the Plaintiffs' motion for class certification. The Plaintiffs filed a motion to reconsider that ruling on October 2, 2009. The defendants, including Central, filed a response in opposition to the Plaintiffs' motion for reconsideration on January 18, 2010. The Plaintiffs filed a reply, and oral argument, which was presented before a different judge, was heard on February 10, 2010. By order dated March 31, 2010, the Court denied the Plaintiff's October 2, 2009 motion to reconsider the earlier denial of class certification. The Plaintiffs did not file for interlocutory review of the March 31, 2010 order; however, it is unknown at this time whether the Plaintiffs intend to proceed with the merits of their claims, absent class certification or plan to move to dismiss the lawsuit.

### ***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 Litigation. 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 flows. Costs incurred to date of defending pending cases have not been material.

## **6. Income Taxes**

The Company's effective tax rate for the six months ended June 30, 2010 was 37.0% compared to 39.6% for the same period ended June 30, 2009. The effective tax rate in excess of the federal statutory rate of 35.0% is primarily due to the impact of state income taxes. The variance between the second quarter of 2009 and 2010 primarily relates to a reduction in composite state income tax rates recorded during 2010.

In accordance with the Accounting for Uncertainty in Income Taxes, the Company records interest related to uncertain tax positions as a part of Interest expense on the accompanying Consolidated Statements of Operations. Any penalties are recognized as part of Miscellaneous expense on the accompanying Consolidated Statements of Operations. The Company does not have a liability for tax penalties or interest related to uncertain tax positions.

As of June 30, 2010, the Company remained subject to examination by Federal and State jurisdictions for the tax years beginning January 1, 2003 and November 16, 2002, respectively, 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

The Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans Topic of the ASC 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 the Accounting for the Effects of Certain Types of Regulations Topic of the ASC, the Company does not recognize changes in the funded status in comprehensive income but recognizes them as changes to the related regulatory asset or liability, pending future recovery or refund through its rates.

Pursuant to the Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans Topic of the ASC, no portion of the related liabilities are classified as current because plan assets exceed the value of benefit obligations expected to be paid within the 12 months ending June 30, 2011. No plan assets are expected to be returned to the Company during the 12 months ending June 30, 2011.

In April 2008, Central filed a general rate case under FERC Docket No. RP08-350, which was certified by the Administrative Law Judge to the FERC on January 13, 2009 and approved by the FERC on June 1, 2009. The terms of the RP08-350 rate settlement, which became effective November 1, 2008, allowed Central to recover in its rates \$9.5 million annually for pension benefits and postretirement benefits other than pensions. Central must fund the amounts recovered into irrevocable trusts established solely for the provision of the aforementioned benefits in a manner that permits Central to maximize the tax deductibility of the deposits and adhere to minimum and maximum funding requirements. Central's \$9.5 million annual funding requirement may only be reduced by amounts funded in excess of recoveries in prior years. As of December 31, 2009, Central had funded a total of \$0.8 million in excess of its recoveries. Central's funding of \$10.0 million in 2009 was \$0.5 million higher than its 2009 recoveries. Central's funding of \$8.1 million in 2008 was \$0.3 million higher than its 2008 recoveries, which consisted of \$6.2 million recovered pursuant to the previous rate settlement and \$1.6 million recovered pursuant to the RP08-350 rate settlement.

### ***Retirement Plan***

Pension expense for the Company's pension plans was \$4.8 million for the six-month periods ended June 30, 2010 and 2009, respectively.

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

#### **Union Retirement Plan**

	<b>For the Six Months Ended June 30, 2010</b>	<b>For the Six Months Ended June 30, 2009</b>
Components of net periodic pension expense:		
Service cost .....	\$ 689	\$ 502
Interest cost .....	709	720
Expected return on plan assets .....	(670)	(535)
Recognized actuarial loss .....	77	22
Employee transfers .....	24	(328)
Settlement recognition .....	1,053	409
Regulatory recovery of costs .....	800	1,870
Net periodic pension expense .....	<u>\$ 2,682</u>	<u>\$ 2,660</u>

**Non-Union Retirement Plan**

	<b>For the Six Months Ended June 30, 2010</b>	<b>For the Six Months Ended June 30, 2009</b>
Components of net periodic pension expense:		
Service cost.....	\$ 1,731	\$ 1,146
Interest cost.....	699	466
Expected return on plan assets.....	(620)	(403)
Recognized actuarial loss .....	193	—
Employee transfers .....	(24)	328
Regulatory recovery of costs .....	89	553
Net periodic pension expense .....	<u>\$ 2,068</u>	<u>\$ 2,090</u>

The Company made contributions to the pension plans totaling \$5.8 million and \$8.2 million for the six-month periods ended June 30, 2010 and 2009, respectively, and anticipates funding an additional \$2.9 million during 2010.

***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):

	<b>For the Six Months Ended June 30, 2010</b>	<b>For the Six Months Ended June 30, 2009</b>
Components of net periodic benefit expense:		
Service cost.....	\$ 261	\$ 242
Interest cost.....	1,294	1,068
Expected return on plan assets.....	(1,068)	(939)
Recognized actuarial loss .....	790	619
Regulatory accrual of costs.....	(1,277)	(990)
Net periodic benefit expense.....	<u>\$ —</u>	<u>\$ —</u>

The Company did not make any contributions to this plan for either of the six-month periods ended June 30, 2010 or 2009.

**9. Related Party Transactions**

Central has 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 each of the three-month periods ended June 30, 2010 and 2009, Central paid approximately \$0.3 million for service fees and expenses to EFS Services, LLC. During each of the first six-month periods of 2010 and 2009, Central paid approximately \$0.5 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 and Holdings have 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 the reasonable expenses it incurs in providing such services.

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

## **10. Employee Retention Agreements**

In 2005, the Company entered into employee retention agreements with the officers of Central. These agreements require annual payments to those employees 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 \$0.9 million in expenses for each of the six-month periods ended June 30, 2010 and 2009, for such annual payments. The current agreements are scheduled to expire on December 31, 2010.

## **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 filed with the SEC on March 15, 2010 for the year ended December 31, 2009. 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.*

*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 the rules and regulations of the SEC.*

## **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 debt 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 Item 1A "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 15, 2010, 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**

### ***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 Morgan Stanley Infrastructure Partners and certain other affiliated investment funds managed by Morgan Stanley Infrastructure, Inc., or MSIP.

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 Federal Energy Regulatory Commission, or 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 19 years. Total average remaining contract life on a volume-weighted basis at June 30, 2010 was approximately five years.

On April 30, 2008, Central filed a general rate case under FERC Docket No. RP08-350 which became effective November 1, 2008. A settlement resolving all issues related to this case, which required Central to bill the settlement rates beginning November 1, 2008, on an interim basis, was approved by the FERC and became final on June 1, 2009. This general rate proceeding increased Central's transportation, storage, and related rates, and also provided for changes to a number of the terms and conditions of customer service in Central's tariff. Pursuant to the terms of its settlement, Central is required to file a new rate case to be effective on or before December 1, 2013.

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 substantially equivalent or more favorable terms.

Pipeline 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.

Changes in environmental laws and regulations may also increase our operating costs and/or capital expenditures as required for monitoring or installation of new equipment. Central expects operating and capital costs associated with such regulations 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. The competing interstate pipelines generally offer less diverse geographic access to natural gas supply and less competitively priced, flexible on-system storage.

In addition, 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.

Central is in the process of expanding its Elk City Storage Field, or the "Storage Expansion Project," to provide an additional 4,000,000 Dekatherms, or Dths, of storage capacity. The expansion is supported by Firm Storage Service agreements with customers to be effective April 1, 2011. The estimated cost of the expansion facilities is approximately \$23.2 million and is expected to generate approximately \$4.7 million in annual revenues.

The facilities include constructing a compressor station adjacent to Central's existing Elk City Storage Field dehydration plant near Independence, Kansas. We filed the FERC 7(c) application (Docket No. CP10-2) on October 9, 2009, acquired the compressor station site, ordered a turbine compressor, secured air permits for the compressor and obtained all necessary environmental permits. The Environmental Assessment, or EA, was initiated by the FERC on November 16, 2009. On March 30, 2010, favorable responses in regards to the project's low significant environmental impact were received from the FERC EA. On May 20, 2010, the FERC released an "Order Issuing Certificate", or Order, granting a portion of the requested certificate authorization, as well as Southern Star's request of market based rate authority, subject to conditions. On June 9, 2010, Central accepted the Order, which allows construction of the facilities to begin in August 2010. On July 2, 2010, Central filed an application with the FERC to amend the certificate to allow for the conversion of 1.4 Bcf of base gas to working gas. This request for a conversion allowance was originally denied in the Order. The application addressed the technical justification and operational parameters related to the 1.4 Bcf of base gas. This project is proposed to be in service by April 1, 2011.

In April 2009, we initiated a binding open season for the “Ozark Advance Expansion Project” to add incremental firm transportation capacity to our system to serve the southwestern portions of Missouri, which concluded on May 8, 2009. Two binding bids were received for incremental contract demand of 9,000 Dths/day. Precedent agreements have been finalized. We will seek regulatory approval from the FERC for the construction portion of the project in early 2011. Initial services are projected to begin at contract demand levels of 5,000 Dths/day to be effective November 1, 2010 and with an additional 4,000 Dths/day to be effective August 1, 2011, after construction is complete. The construction is expected to cost approximately \$2.0 million and will ultimately generate annual revenues of \$0.5 million.

### **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 2009 Annual Report on Form 10-K filed with the SEC on March 15, 2010.

### **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 June 30, 2010 and 2009***

Operating revenues decreased by \$3.1 million, or 5.8%, from \$54.7 million to \$51.6 million for the three-month period ended June 30, 2010 as compared to the three-month period ended June 30, 2009. The decrease is primarily due to lower transportation and storage revenues in the second quarter of 2010. Lower transportation revenues are a result of decreased incremental park and loan services due to lower future price curves and the flattening basis differentials in 2010, offset partially by higher reservation revenues. Lower storage revenues are a result of decreased inventories in storage that were a result of increased residential natural gas demand related to the cooler weather that occurred in the first quarter of 2010.

Operations and maintenance expenses were \$12.4 million and \$13.2 million for the three-month periods ended June 30, 2010 and 2009, respectively, a \$0.8 million, or 6.2%, decrease. The decrease is primarily due to lower expenses in 2010 for pipeline integrity management program costs, labor, employee relocations, lube oil, well testing and materials, offset partially by higher expenses for gas losses and expenses related to a March 2010 pipeline failure in Kansas, as well as expenses related to right of way clearing and contractual services.

Administrative and general expenses decreased by \$1.0 million, or 10.1%, from \$10.5 million to \$9.5 million for the three-month period ended June 30, 2010 as compared to the three-month period ended June 30, 2009. The decrease is primarily due to lower expenses in 2010 for group medical insurance, employee incentives and professional services, offset partially by an increase in legal services.

Depreciation expense was \$8.0 million and \$8.2 million for the three month-periods ended June 30, 2010 and 2009, respectively, a \$0.2 million, or 2.2%, decrease. The decrease is primarily due to a decrease in depreciable base in 2010 from asset retirements of communication and computer equipment, as well as compressor station turbines. Also contributing to the decrease is \$4.8 million in software costs becoming fully amortized during 2009.

Taxes, other than income taxes, were \$4.1 million and \$3.7 million for the three-month periods ended June 30, 2010 and 2009, respectively, a \$0.4 million, or 11.0%, increase. The increase is primarily due to higher expenses for ad-valorem taxes, partially offset by lower payroll taxes.

The provision for income taxes decreased by \$0.5 million, or 12.8%, from \$4.4 million to \$3.9 million for the three-month period ended June 30, 2010 as compared to the three-month period ended June 30, 2009. The decrease is commensurate with lower pre-tax income.

### ***Comparison of the Six Months Ended June 30, 2010 and 2009***

Operating revenues were \$104.5 million and \$110.1 million for the six-month periods ended June 30, 2010 and 2009, respectively, a \$5.6 million, or 5.1%, decrease. The decrease is primarily due to lower transportation and storage revenues in 2010. Lower transportation revenues are a result of decreased incremental park and loan services due to lower future price curves and the flattening of basis differentials in 2010, offset partially by higher reservation revenues. Lower storage revenues are a result of decreased inventories in storage that were a result of increased residential natural gas demand related to the cooler weather that occurred in the first quarter of 2010.

Operations and maintenance expenses decreased by \$1.6 million, or 6.4%, from \$24.3 million to \$22.7 million for the six-month period ended June 30, 2010 as compared to the six-month period ended June 30, 2009. The decrease is primarily due to lower expenses in 2010 for pipeline integrity management program costs, labor, well testing, materials, employee relocations, professional services, lube oil and higher operating expenses transferred to capital, offset partially by higher expenses for gas losses and expenses related to a March 2010 pipeline failure.

Administrative and general expenses decreased by \$1.6 million, or 7.7%, from \$20.8 million to \$19.2 million for the six-month period ended June 30, 2010 as compared to the six-month period ended June 30, 2009. The decrease is primarily due to lower expenses in 2010 for group medical insurance, employee incentives and 401(k) contributions, offset partially by an increase in a reserve for worker's compensation and lower operating expenses transferred to capital.

Depreciation expense was \$15.0 million and \$16.2 million for the six-month periods ended June 30, 2010 and 2009, respectively, a \$1.2 million, or 7.4%, decrease. The decrease is primarily due to a decrease in depreciable base in 2010 from asset retirements of communication and computer equipment, as well as compressor station turbines. Also contributing to the decrease is \$4.8 million in software costs becoming fully amortized during 2009.

Taxes, other than income taxes, increased by \$0.2 million, or 3.7%, from \$7.6 million to \$7.8 million for the six-month period ended June 30, 2010 as compared to the six-month period ended June 30, 2009. The increase is primarily due to higher expenses for ad-valorem tax in 2010, partially offset by lower 2010 payroll taxes.

The provision for income taxes was \$8.8 million and \$9.9 million for the six-month periods ended June 30, 2010 and 2009, respectively, a \$1.1 million, or 11.1%, decrease. The decrease is commensurate with lower pre-tax income and a decrease in the composite state tax rate in the first quarter of 2010.

### **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 do not maintain a credit facility for working capital needs. We expect to fund our capital and other liquidity requirements with cash on hand, cash flows from operating activities and by accessing debt markets, if needed and available, to support operations and capital expenditures.

As of August 2, 2010, 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 six-month periods ended June 30, 2010 and 2009 was \$36.8 million and \$36.2 million, respectively. Cash from operating activities was higher in 2010 primarily due to 2010 cash receipts for reimbursable projects, lower 2010 income tax receivables, and lower 2010 funding to our pension plans discussed in Note 8 of the accompanying Notes to the Consolidated Financial Statements. The increase was partially offset by a construction project prepayment in 2010 and lower 2010 operating income, excluding depreciation.

Net cash used in investing activities for the six-month periods ended June 30, 2010 and 2009 was \$19.1 million and \$16.4 million, respectively. Cash used in investing activities was higher in the second quarter of 2010 primarily due to the Storage Expansion Project and higher maintenance capital expenditures.

Net cash used in financing activities for the six-month periods ended June 30, 2010 and 2009 was \$15.3 million and \$16.2 million, respectively. The decrease is primarily due to lower 2010 dividend payments.

### ***6.75% Registered Notes***

As of June 30, 2010, we had outstanding \$200.0 million of 6.75% Notes registered under the Securities Act of 1933 as amended, or 6.75% Registered Notes. The Bank of New York Trust Company, N.A. serves as trustee pursuant to the related indenture dated as of April 13, 2006. 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 secured indebtedness of ours 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, are 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 have the right to 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% Unregistered Notes in a private placement. In connection with the offering, we entered into an indenture dated April 16, 2008 with 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. The 6.75% Unregistered Notes will mature on March 1, 2016 and have an overall effective interest rate of 8.55%. The 6.75% Unregistered Notes are senior unsecured 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 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 have the right to 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***

As of June 30, 2010, Central had outstanding \$230.0 million aggregate principal amount of 6.0% Senior Notes due 2016, or 6.0% Notes. The Bank of New York Trust Company, N.A. serves as trustee under the related indenture dated as of April 13, 2006. The indenture governing the 6.0% Notes contains customary restrictive covenants and events of default. 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.

Interest on the 6.0% Notes is payable semi-annually 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 any 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% Notes.

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***

In 2004, Central entered into a 20-year capital lease with the Owensboro-Daviess County Industrial Development Authority, or the Authority, for use of a 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 this 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, N.A., as trustee. Ownership of the facility will transfer to Central for a nominal fee upon expiration of the lease in 2024. Approximately \$9.5 million of assets are included in Property, plant and equipment as a capital lease and are being amortized over the same life as similar assets. Amortization of the assets is included in Depreciation and amortization in the accompanying unaudited Consolidated Financial Statements. 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***

We operate under a Federal and State Income Tax Policy that governs the allocation and payment of tax liabilities of Holdings, Southern Star and Central. This policy provides that we will file consolidated tax returns on behalf of ourselves, Holdings and Central and will pay all taxes shown thereon to be due. Central 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. During the second quarter of 2009, remaining tax benefit carryforwards were substantially realized, resulting in cash outlays attributable to tax liabilities originating in the current period, as well as future periods.

On April 30, 2008, Central filed a general rate case under FERC Docket No. RP08-350 which became effective November 1, 2008. The case was approved without modification by the FERC on June 1, 2009. Pursuant to the terms of its settlement, Central is required to file a new rate case to become effective no later than December 1, 2013.

On April 13, 2010, the United States District Court for the District of Kansas issued a "Memorandum and Order" in Colorado Interstate Gas Company vs. Thomas E. Wright, et al., Case No. 09-4031-SAC, concluding that the Kansas statutes and regulations pertaining to the regulation of underground storage, or the Kansas Underground Porosity Gas Storage Regulations, are "clearly pre-empted" by both the Natural Gas Act and the Pipeline Safety Act, with regard to gas stored in Kansas that is transported in interstate commerce. The Kansas Corporation Commission, or the KCC, chaired by Mr. Wright, did not file an appeal in the case and now has officially taken the position that the KCC's jurisdiction extends only to intrastate storage operations in Kansas. Thus, Central is no longer required to obtain fully authorized operating permits from the KCC for its storage fields in Kansas, nor must it comply with the KCC rules regarding integrity testing.

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 \$0.9 million in expenses for the six-month periods ended June 30, 2010 and 2009, respectively, for such annual payments. The current agreements are scheduled to expire on December 31, 2010.

As of June 30, 2010, 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**

### ***Contractual Obligations and Commitments***

We have estimated capital expenditures of \$65.9 million in 2010 including approximately \$17.4 million for the Storage Expansion Project and approximately \$13.7 million for projects under our pipeline integrity management program. We expect to fund 2010 capital expenditures from cash on hand and cash generated from operations.

In addition to the capital expenditures listed above, Central expects to contribute a total of \$8.7 million to its Retirement and Post Retirement Medical Benefit Plans in 2010. 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 capital 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***

Central generally has experienced increased costs in recent years due to the effect of inflation on the cost of labor and benefits, materials and supplies, and property, plant and equipment. A portion of the increased expenses resulting from labor, materials and supplies 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.

## **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. Our long-term debt as of June 30, 2010, had a carrying value of \$476.4 million and a fair value of \$492.3 million. The weighted-average interest rate of our long-term debt was 6.79%. Our \$200.0 million (6.75% Registered Notes), and \$230.0 million (6.0% Notes) and \$50.0 million (6.75% Unregistered Notes) long-term debt issues mature in 2016. The \$5.4 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 June 30, 2010, 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 June 30, 2010.

*Changes in Internal Control Over Financial Reporting* – There has been no change in our internal control over financial reporting during the three months ended June 30, 2010, 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. The Department of Justice 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 filed notices of appeal with the United States Court of Appeals for the Tenth Circuit, or Appellate Court, where his appeals were docketed as *In re Natural Gas Royalties Qui Tam Litigation*, Case No. 06-8099. Oral argument occurred on September 25, 2008. On March 17, 2009, the Appellate Court affirmed the Trial Court's dismissal of Grynberg's complaints on jurisdictional grounds related to the "original source" defense asserted by Central. On March 20, 2009, Grynberg filed a motion for an extension of time to file a petition for rehearing of the Appellate Court's decision. The Court granted Grynberg's motion and he subsequently filed his petition for rehearing on April 14, 2009. On May 4, 2009, the Appellate Court denied Grynberg's petition for rehearing. On August 4, 2009, Grynberg filed a petition (Number 09-170) for certiorari review with the United States Supreme Court. On October 5, 2009, the Supreme Court denied Grynberg's petition. The parties continue to await the Trial Court's Ruling on the defendants' motion(s) for attorney's 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 under measured 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 the motion on April 1, 2005. On September 18, 2009, the Court denied the Plaintiff's most recent motion for class certification. The Plaintiffs filed a motion to reconsider that ruling on October 2, 2009. The defendants, including Central, filed a response in opposition to the Plaintiffs' motion for reconsideration on January 18, 2010. The Plaintiffs filed a reply, and oral argument, which was presented before a different judge, was heard on February 10, 2010. By order dated March 31, 2010, the Court denied the Plaintiff's October 2, 2009 motion to reconsider the earlier denial of class certification. The Plaintiffs did not file for interlocutory review of the March 31, 2010 order; however, it is unknown at this time whether the Plaintiffs intend to proceed with the merits of their claims, absent class certification or plan to move to dismiss the lawsuit.

*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 under measured 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 Plaintiffs' second class certification motion in Price Litigation I, was fully briefed and the Court heard oral argument on this motion on April 1, 2005. On September 18, 2009, the Court denied the Plaintiffs' motion for class certification. The Plaintiffs filed a motion to reconsider that ruling on October 2, 2009. The defendants, including Central, filed a response in opposition to the Plaintiffs' motion for reconsideration on January 18, 2010. The Plaintiffs filed a reply, and oral argument, which was presented before a different judge, was heard on February 10, 2010. By order dated March 31, 2010, the Court denied the Plaintiff's October 2, 2009 motion to reconsider the earlier denial of class certification. The Plaintiffs did not file for interlocutory review of the March 31, 2010 order; however, it is unknown at this time whether the Plaintiffs intend to proceed with the merits of their claims, absent class certification or plan to move to dismiss the lawsuit.

#### **Item 1A. Risk Factors**

*See our 2009 Annual Report on Form 10-K filed with the SEC on March 15, 2010, which includes a detailed discussion of our risk factors under Item 1A, "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. Removed and Reserved**

#### **Item 5. Other Information**

None.

## Item 6. Exhibits

- 10.28 —Amendment No. 3 to Employment Agreement, dated as of May 13, 2010, among Southern Star Central Corp., Central and Jerry L. Morris.
- 10.29 —Amendment No. 2 to Employment Agreement, dated as of May 13, 2010, among Southern Star Central Corp., Central and Robert S. Bahnick.
- 10.30 —Amendment No. 2 to Employment Agreement, dated as of May 13, 2010, among Southern Star Central Corp., Central and Robert W. Carlton.
- 10.31 —Amendment No. 2 to Employment Agreement, dated as of May 13, 2010, among Southern Star Central Corp., Central and Chris W. Ellison.
- 10.32 —Amendment No. 2 to Employment Agreement, dated as of May 13, 2010, among Southern Star Central Corp., Central and David L. Finley.
- 10.33 —Amendment No. 2 to Employment Agreement, dated as of May 13, 2010, among Southern Star Central Corp., Central and Beverly H. Griffith.
- 10.34 —Amendment No. 2 to Employment Agreement, dated as of May 13, 2010, among Southern Star Central Corp., Central and Susanne W. Harris.
- 10.35 —Amendment No. 2 to Employment Agreement, dated as of May 13, 2010, among Southern Star Central Corp., Central and Daryl R. Johnson.
- 10.36 —Amendment No. 2 to Employment Agreement, dated as of May 13, 2010, among Southern Star Central Corp., Central and Richard J. Reischman.
- 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 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.

August 11, 2010

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

August 11, 2010

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

## INDEX TO EXHIBITS

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**CERTIFICATION PURSUANT TO RULES 13a – 14(a) OR 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a -15(f) and 15d – 15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**Signature**

**Title**

**Date**

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

Chief Executive Officer

August 11, 2010

**CERTIFICATION PURSUANT TO RULES 13a – 14(a) OR 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**Signature**

**Title**

**Date**

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

Chief Financial Officer

August 11, 2010

**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 June 30, 2010 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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
By: <u>/s/ Jerry L. Morris</u> Jerry L. Morris	Chief Executive Officer	August 11, 2010
By: <u>/s/ Susanne W. Harris</u> Susanne W. Harris	Chief Financial Officer	August 11, 2010

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.