Ruths Hospitality Group, Inc.
Form 10-K
March 05, 2010
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 27, 2009

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 000-51485

RUTH S HOSPITALITY GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**72-1060618**

(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

400 International Parkway, Suite 325 Heathrow, Florida	**32746**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s Telephone Number, Including Area Code: (407) 333-7440

Securities Registered Pursuant to Section 12(b) of the Act:	**The NASDAQ Stock Market LLC**
Common stock, par value $0.01 per share (Title of class)	(Name of exchange on which registered)

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 (check one):

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if smaller reporting company)	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 x

As of June 28, 2009, the last day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the registrant s common stock, par value $0.01 per share, held by non-affiliates of the registrant was approximately $90,384,787.

The number of shares outstanding of the registrant s common stock as of March 5, 2010, was 34,352,455.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of Form 10-K, to the extent not set forth herein, is incorporated herein by reference to the registrant s Proxy Statement for the 2010 Annual Meeting of Shareholders to be held on or around May 26, 2010, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of the registrant s fiscal year.

Table of Contents

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	12
Item 1B.	Unresolved Staff Comments	17
Item 2.	Properties	17
Item 3.	Legal Proceedings	21
Item 4.	Reserved	21
	PART II	
Item 5.	Market for the Registrant s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities	22
Item 6.	Selected Financial Data	24
Item 7.	Management s Discussion and Analysis and Results of Operations and Financial Condition	26
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	38
Item 8.	Financial Statements and Supplementary Data	39
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	39
Item 9A.	Controls and Procedures	40
Item 9B.	Other Information	44
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	44
Item 11.	Executive Compensation	44
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	44
Item 13.	Certain Relationships and Related Transactions, and Director Independence	45
Item 14.	Principal Accountant Fees and Services	45
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	45
Signatures		46

Table of Contents

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K and the materials incorporated by reference herein contain forward-looking statements that reflect, when made, the Company s expectations or beliefs concerning future events that involve risks and uncertainties. Forward-looking statements frequently are identified by the words believe, anticipate, expect, estimate, intend, project, will be, will continue, will likely result, or other and phrases. Similarly, statements herein that describe the Company s objectives, plans or goals also are forward-looking statements. Actual results could differ materially from those projected, implied or anticipated by the Company s forward-looking statements. Some of the factors that could cause actual results to differ include: changes in economic conditions and general trends; the loss of key management personnel; the effect of market volatility on the Company s stock price; health concerns about beef or other food products; the effect of competition in the restaurant industry; changes in consumer preferences or discretionary spending; reductions in the availability of, or increases in the cost of, USDA Prime grade beef, fish and other food items; labor shortages or increases in labor costs; the impact of federal, state or local government regulations relating to Company employees, the sale or preparation of food, the sale of alcoholic beverages and the opening of new restaurants; harmful actions taken by the Company s franchisees; the Company s ability to protect its name and logo and other proprietary information; the impact of litigation; the restrictions imposed by the Company s credit agreement; and failure of internal controls over financial reporting. For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, please see Item 1A. Risk Factors in this Annual Report on Form 10-K as well as the Company s other filings with the Securities and Exchange Commission (the SEC), all of which are available on the SEC s website at www.sec.gov. All forward-looking statements are qualified in their entirety by this cautionary statement, and the Company undertakes no obligation to revise or update this Annual Report on Form 10-K to reflect events or circumstances after the date hereof. Stockholders and other security holders or buyers of the Company s securities or its other creditors should not assume that material events subsequent to the date of this report have not occurred.

Unless the context otherwise indicates, all references in this report to the Company, Ruth s Chris, we, us or our or similar words are to Ruth Hospitality Group, Inc., and its wholly owned subsidiaries.

Table of Contents

PART I

Item 1. BUSINESS
Introduction

Ruth s Hospitality Group, Inc. is a leading restaurant company focused on the upscale dining segment. The Company owns the Ruth s Chris Steak House, Mitchell s Fish Market, Columbus Fish Market, Mitchell s Steakhouse and Cameron s Steakhouse concepts. As of December 27, 2009, there were 130 Ruth s Chris Steak House restaurants, of which 64 were company-owned and 66 were franchisee-owned, including fourteen international franchisee-owned restaurants in Aruba, Canada, China (Hong Kong), Mexico, Japan, Taiwan, and the United Arab Emirates. The Company also operates 19 Mitchell s Fish Markets and three Cameron s Steakhouse restaurants, located primarily in the mid-west and Florida.

We have a 52/53 week fiscal year ending the last Sunday in December. Our 2009 fiscal year ended December 27, 2009, our 2008 fiscal year ended December 28, 2008, and our 2007 fiscal year ended December 30, 2007. Fiscal years 2009, 2008 and 2007 each had 52 weeks.

The following description of our business should be read in conjunction with the information in our Management s Discussion and Analysis of Results of Operations of Financial Condition incorporated by reference in Item 7 of this Form 10-K and our consolidated financial statements located elsewhere in this Form 10-K.

Background

The Company was founded in 1965 when Ruth Fertel mortgaged her home for $22,000 to purchase the Chris Steak House, a 60-seat restaurant located near the New Orleans Fair Grounds racetrack. After a fire destroyed the original restaurant, Ruth relocated her restaurant to a new 160-seat facility nearby. As the terms of the original purchase prevented the use of the Chris Steak House name at a new location, Ruth added her name to that of the original restaurant thus creating the Ruth s Chris Steak House brand.

The Company s expansion began in 1972, when Ruth opened a second restaurant in Metairie, a suburb of New Orleans. In 1976, the first franchisee-owned Ruth s Chris Steak House opened in Baton Rouge, Louisiana. In July 1999, affiliates of Madison Dearborn Partners LLC (Madison Dearborn) and certain unaffiliated investors acquired all of the Company s outstanding capital stock. On May 19, 2005, the Company reincorporated in Delaware by merging Ruth s Chris Steak House, Inc., a Louisiana corporation, into a newly formed Delaware subsidiary. In August 2005, the Company and certain selling shareholders completed an initial public offering of the Company s common stock, which is currently listed on the Nasdaq Global Select Market.

On February 19, 2008, the Company acquired all of the operating assets and intellectual property of Columbus, Ohio based Mitchell s Fish Market, which operates 19 restaurants operating under the names Mitchell s Fish Market and Columbus Fish Market, and Cameron s Steakhouse, which operates three restaurants operating under the names Cameron s Steakhouse and Mitchell s Steakhouse, from Cameron Mitchell Restaurants, LLC (CMR).

In connection with the acquisition, the Company changed its name from Ruth s Chris Steak House, Inc. to Ruth s Hospitality Group, Inc. The name change was made in order for the Company to have a name that would better represent the business after the acquisition, as the Company began operating some restaurants that are not considered steak houses. The name change was approved by our stockholders at our 2008 annual meeting and became effective on May 23, 2008.

Table of Contents

2009 Developments

On February 26, 2009, the Company announced that it had signed a First Amendment to its First Amended and Restated Credit Agreement to provide the Company with requested covenant relief and to make other changes to the existing agreement. The Amendment decreased the Company s Fixed Charge Coverage Ratio and increased its maximum Leverage Ratio, in each case beginning with the fourth quarter of 2008 continuing through the second quarter of 2010, after which these two covenants reset to their original levels. The Amendment also added two new covenants, a minimum EBITDA test as well as restrictions on capital expenditures.

On February 28, 2009 the Company closed its San Juan, Puerto Rico Ruth s Chris Steak House location after choosing not to renew an expiring lease. This restaurant reopened as a franchise in the fourth quarter of 2009.

On May 23, 2009 the Company closed an underperforming Ruth s Chris Steak House restaurant in Naples, Florida.

On June 25, 2009, the company filed a shelf registration statement on Form S-3 with the SEC to allow the company to raise capital through the sale of securities.

On December 22, 2009 the Company announced a plan to raise $25 million via a subscription rights offering to existing shareholders, and a sale of $25 million of preferred stock to Bruckmann, Rosser, Sherrill & Co. III, L.P. and BRS Coinvestor III, L.P. The transaction closed on February 12, 2010 resulting in a $44.3 million paydown on the Company s revolving credit facility. As a result of this repayment and satisfaction of other agreed-upon conditions, the Second Amendment to the Credit Agreement also became effective on this date. The Second Amendment to the Credit Agreement extended the maturity of the facility by two years and provided the Company with a less restrictive set of covenants.

Restaurant Concepts

Ruth s Chris Steak House

With 130 locations, Ruth s Chris Steak House is the largest upscale steakhouse company in the world. The menu features a broad selection of high-quality USDA Prime grade steaks and other premium offerings served in Ruth s Chris signature fashion sizzling and topped with seasoned butter complemented by other traditional menu items inspired by its New Orleans heritage. Ruth s Chris complements its distinctive food offerings with an award-winning wine list, featuring bottles priced between $24 and $2,000 and many selections offered by the glass.

The Ruth s Chris brand reflects its more than 40-year commitment to the core values instilled by its founder, Ruth Fertel, of caring for guests by delivering the highest quality food, beverages and genuine hospitality in a warm and inviting atmosphere.

Mitchell s Fish Market

Acquired by the Company in 2008, Mitchell s Fish Market is a 19 location upscale seafood concept whose success has been built on a reputation for excellent guest service and a superior menu featuring the freshest seafood flown in daily from around the world. Mitchell s Fish Market is open for both lunch and dinner, offering a menu of more than 80 seafood choices that changes frequently based on availability and season. Popular menu items include the Mitchell s Fish Market 12 Species of Fresh Catch, top quality fish selections that are hand filleted in a temperature controlled seafood cutting room.

Mitchell s/Cameron s Steakhouse

Mitchell s/Cameron s Steakhouse is a modern American steakhouse concept offering hand selected prime steaks aged to perfection, along with a selection of true Japanese Kobe beef. Complementing its selection of

prime steaks and the freshest seafood are house-made side dishes and a wine list featuring 200 of the world s finest labels. Mitchell s Steakhouse has two locations in the Columbus, Ohio area. Cameron s Steakhouse is located in Birmingham, MI.

Our Strengths

The Company believes that the key strengths of its business model are the following:

Premier Upscale Steakhouse Brand

The Company believes that Ruth s Chris is one of the strongest brands in the upscale steakhouse segment of the restaurant industry. The Company s Ruth s Chris restaurants continue to receive numerous awards at the local and national level. Many continue to be ranked best steakhouse by local publications in the areas in which they operate. In addition, the Company has been recognized for its award-winning core wine list, for which a majority of its company-owned restaurants received Awards of Excellence from *Wine Spectator* magazine in 2009.

Premier Upscale Casual Seafood Concept

Mitchell s Fish Market is an award-winning, upscale, yet comfortable, seafood restaurant and bar recognized for its high-quality food, contemporary dining atmosphere, and excellent service. Mitchell s Fish Market is committed to fresh seafood with all of its seafood flown in daily. Year after year, Mitchell s Fish Market continues to earn best seafood restaurant awards from guests and publications as well as recognition for its high-quality food, warm and inviting atmosphere and excellent service.

Appealing Dining Experience

At our Ruth s Chris restaurants, the Company seeks to exceed guests expectations by offering high-quality food with courteous, friendly service in the finest tradition of Southern hospitality. The Company s entire restaurant staff is dedicated to ensuring that guests enjoy a superior dining experience. The Company s team-based approach to table service is designed to enhance the frequency of guest contact and speed of service without intruding on the guest experience.

Mitchell s Fish Market upscale casual restaurants, with their sophisticated yet comfortable atmosphere and emphasis on fresh seafood, complement our Ruth s Chris restaurants. The Company believes that Mitchell s Fish Market shares many characteristics of the Ruth s Chris model, including solid unit economics and broad guest appeal.

Solid Unit Economics

The Company believes that it has successfully operated restaurants in a wide range of markets and achieved attractive rates of return on invested capital. The Company s five newest company-owned Ruth s Chris Steak House restaurants that opened in 2008 generated average unit volumes of approximately $4.6 million in fiscal 2009, compared to average unit volumes of approximately $3.9 million in fiscal 2009 for the other company-owned Ruth s Chris Steak House restaurants opened at least 15 months.

Table of Contents

Our Strategy

The Company believes there continues to be opportunities to grow its business, strengthen its competitive position and enhance its brand through the continued implementation of the following strategies:

Improve Sales/Profitability

The Company intends to improve profitability by continuing to implement key operating initiatives. These operating initiatives include:

- ensuring consistency of food quality through more streamlined preparation and presentation;
- increasing emphasis on wine sales by providing wine education for managers;
- increasing brand awareness through enhanced media plans at the national and local levels;
- enhancing and/or developing innovative marketing programs, such as its websites, www.ruthschris.com, www.mitchellsfishmarket.com, www.mitchellssteakhouse.com, and www.camerons-steakhouse.com, social media, and email communication; and
- creating and/or enhancing revenue opportunities via Ruth s Catering, Private Dining, HD Satellite Programs and Gift Cards.

Expand Relationships with New and Existing Franchisees

The Company intends to grow its franchising business by developing relationships with a limited number of new franchisees and by expanding the rights of existing franchisees to open new restaurants. The Company believes that building relationships with quality franchisees is a cost-effective way to strengthen the Ruth s Chris brand and generate additional revenues. Franchisees opened 42 Ruth s Chris restaurants from 1999 to the end of 2009. In fiscal 2009, existing and new franchisees opened four and two restaurants, respectively. During fiscal 2009, the Company also entered into four development agreements with new franchisees. Overall, there are 17 outstanding franchise locations to be built as of December 27, 2009. The Company intends to continue to focus on providing operational guidance to its franchisees, including the sharing of best practices from company-owned Ruth s Chris restaurants.

The Company currently is evaluating plans to franchise Mitchell s Fish Market.

Menu

Ruth s Chris Steak House

The Ruth s Chris menu features a broad selection of high-quality USDA Prime grade steaks and other premium offerings served in Ruth s Chris signature fashion sizzling and topped with seasoned butter complemented by other traditional menu items inspired by its New Orleans heritage. USDA Prime is a meat grade label, which refers to the evenly distributed marbling that enhances the flavor of the steak. The Ruth s Chris menu also includes premium quality lamb chops, veal chops, fish, chicken and lobster. Dinner entrees are generally priced from $18.00 to $47.00. While Ruth s Chris is predominantly open dinner hours only, seven select locations open for lunch five days a week and an additional ten locations open for lunch one day per week. The lunch menu offers entrees generally ranging in price from $13.00 to $29.00. The blended guest check average at Ruth s Chris is approximately $69.00. The Ruth s Chris core menu is similar at all of its restaurants. The Company occasionally introduces new items such as specials and prix-fixe offerings that allow it to give its guests additional choices while taking advantage of fresh sourcing and advantageous cost opportunities. In 2009, Ruth s Chris introduced Ruth s Classics, a three course prix fixe meal designed to offer great value and a certainty of price point.

The Company s Ruth s Chris restaurants offer ten to thirteen standard appetizer items, including New Orleans-style barbequed shrimp, mushrooms stuffed with crabmeat, shrimp remoulade, Louisiana seafood gumbo, lobster bisque, crabtini, as well as seven different salads. They also offer seven to nine types of potatoes

and eight to ten types of vegetables as side dishes ranging in price from $7.00 to $10.00. For dessert, crème brulee, bread pudding with whiskey sauce, chocolate sin cake, fresh seasonal berries with sweet cream sauce and other selections are available for $6.00 to $9.00 each.

The Company s wine list features bottles typically ranging in price from $24 to $2,000. Individual restaurants supplement their 200-bottle core wine list with a minimum of 50 additional selections that reflect local market tastes. Most of the Company s Ruth s Chris restaurants also offer approximately 30 to 40 wines-by-the-glass and numerous beers, liquors and alcoholic dessert drinks. Wine sales account for approximately 65% of the total beverage sales.

Mitchell s Fish Market

Although the menu changes frequently based on availability and season, it includes more than 80 seafood choices, including fish from all over the world. Popular menu items include the Mitchell s Fish Market 12 Species of Fresh Catch, top quality fish selections that are hand filleted on-site in a temperature controlled seafood cutting room. The Mitchell s Fish Market menu offers traditional seafood favorites such as Chesapeake Bay Crab Cakes and Fish and Chips, as well as more innovative offerings such as Cedar Planked Salmon and Pumpkin Seed crusted Tilapia. Menu offerings also include non-seafood items such as steak and chicken. Mitchell s Fish Market also offers an award winning dessert menu that features desserts such as Seven-Layer Carrot Cake, Sharkfin Pie and other selections.

Mitchell s Fish Markets are open for lunch and dinner daily. Lunch entrees are priced from $8.50 to $18.95, while dinner entrees are priced from $15.50 to $29.95. The Mitchell s Fish Market blended check average is approximately $34.00. The Mitchell s Fish Market core menu is similar at all 19 company-owned restaurants. Mitchell s Fish Markets introduced a three course prix-fixe meal in 2009 to offer guests great value.

The Mitchell s Fish Market core wine list features bottles typically ranging in price from $26 to $195. Individual restaurants supplement their approximately 60 bottle core wine list with a minimum of 15 to 20 additional selections that reflect local market tastes. Restaurants also offer approximately 24 types of wine-by-the-glass. Wine sales account for approximately 51% of the total beverage sales.

Purchasing

The Company s ability to maintain consistent quality throughout its restaurants depends in part upon its ability to acquire food and other supplies from reliable sources in accordance with its specifications. Purchasing at the restaurant level is directed primarily by the executive chef, who is trained in the Company s purchasing philosophy and specifications, and who works with its regional and corporate managers to ensure consistent sourcing of meat, fish, produce and other supplies.

During fiscal 2009 the Company purchased more than 60% of the beef it used in its company-owned Ruth s Chris restaurants from one vendor, New City Packing Company, Inc. In addition, the Company has a long-term distribution arrangement with a national food and restaurant supply distributor, Distribution Market Advantage, Inc. (DMA), which purchases products for the Company from various suppliers and through which currently all 64 of its company-owned Ruth s Chris Steak House restaurants receive a significant portion of their food supplies. The Company purchased more than 80% of the fresh seafood served in its Mitchell s Fish Market from two vendors, Michael s Finer Meats and Seafood and Save On Seafood Company.

Restaurant Operations and Management

Ruth s Chris Steak House

The Ruth s Chris Chief Operating Officer has primary responsibility for managing its company-owned restaurants and participates in analyzing restaurant-level performance and strategic planning. The Company has six regional vice presidents that oversee restaurant operations at nine to fourteen company-owned restaurants and one regional vice president that has oversight responsibility for franchise-owned restaurants.

Table of Contents

The Company s typical company-owned restaurant employs five managers, including a general manager, two front-of-the-house managers, an executive chef and a sous chef. The Company s company-owned restaurants also typically have approximately 70 hourly employees. The general manager of each restaurant has primary accountability for ensuring compliance with the Company s operating standards. The front-of-the-house managers assist the general manager in the day-to-day operations of the restaurant and are directly responsible for the supervision of the bar, host, server, runner and service assistant personnel. The executive chef supervises and coordinates all back-of-the-house operations, including ensuring that its quality standards are being met while maintaining a safe, efficient and productive work environment.

Mitchell s Fish Market

The Mitchell s Fish Market Chief Operating Officer has primary responsibility for managing its restaurants and participates in analyzing restaurant-level performance and strategic planning. The Company has a Vice President of Operations and three regional directors that oversee restaurant operations at five to six company-owned restaurants.

The typical Mitchell s Fish Market restaurant employs five to six managers based on sales volume, including a general manager, two dining room managers, an executive chef and one or two sous chefs. The restaurants also typically have approximately 70 hourly employees. The general manager of each restaurant has primary accountability for ensuring compliance with the Company s operating standards. The front-of- the-house managers assist the general manager in the day-to-day operations of the restaurant and are directly responsible for the supervision of the bar, host, server, runner and service assistant personnel. The executive chef supervises and coordinates all back-of-the-house operations, including ensuring that its quality standards are being met while maintaining a safe, efficient and productive work environment.

Quality Control

The Company strives to maintain quality and consistency in its company-owned Ruth s Chris and Mitchell s Fish Market restaurants through careful training and supervision of personnel and standards established for food and beverage preparation, maintenance of facilities and conduct of personnel. The primary goal of the Company s training and supervision programs is to ensure that its employees display the characteristics of its brand and values that distinguish it from its competitors. Restaurant managers in its Ruth s Chris company-owned restaurants must complete a training program that is typically seven weeks long, during which they are instructed in multiple areas of restaurant management, including food quality and preparation, guest service, alcoholic beverage service, liquor regulation compliance and employee relations. Restaurant managers also receive operations manuals relating to food and beverage preparation and restaurant operations. The Ruth s Chris Steak House restaurants employ Steritech, a third-party food safety firm to ensure proper training, routine inspections and achieving the highest standards for cleanliness throughout the restaurant. The Company instructs chefs and assistants on safety, sanitation, housekeeping, repair and maintenance, product and service specifications, ordering and receiving food products and quality assurance.

Restaurant managers in its Mitchell s Fish Markets are certified by the National Restaurant Association Educational Foundation (NRAEF) for food safety. The Company also employs CNS FoodSafe, a third-party food safety firm which developed a program exclusively for Mitchell s Fish Markets to ensure proper training, routine inspections and achieving the highest standards for cleanliness throughout the restaurant. General managers and certified coaches provide all other employee training at the restaurants. The Company requires that all restaurant-level employees be able to demonstrate knowledge of its systems, standards and operating philosophy.

On a daily basis at our Ruth s Chris restaurants, the executive chef, together with the restaurant managers, oversees a line check system of quality control and must complete a quality assurance checklist verifying the flavor, presentation and proper temperature of the food and beverages. At our Mitchell s Fish Markets, quality

checks are performed twice daily by the chef and management team to verify stringent specifications for flavor, presentation and that proper temperature of food and beverages are met. In addition, the Company s regional vice presidents and directors perform system-wide quality assessments of all aspects of restaurant operations, with a focus on back-of-the-house functions, on a regular basis.

Marketing and Promotions

The goals of the Company s marketing efforts are to increase comparable restaurant sales by attracting new guests, increase the frequency of visits by current guests, improve brand recognition in new markets or markets where it intends to open a restaurant and to communicate the overall uniqueness, value and quality exemplified by our restaurants. The Company uses multiple media channels to accomplish these goals and complements its national advertising with targeted local media such as print, radio and outdoor.

Advertising

In fiscal 2009, the Company spent $11.7 million, or 3.5% of its revenues, in total advertising expenditures. Of its total advertising expenditures, $8.0 million, or 68%, was spent on local media and local events. This local media spending was split between local, entertainment and business magazines and newspapers, outdoor billboards and airport dioramas, local radio, internet media and local community events such as golf tournaments, art gatherings and charitable events. In fiscal 2009, the Company spent approximately $3.7 million, or 32% of total advertising expenditures, on national media for the Ruth s Chris Steak House brand, consisting primarily of national radio and national magazines, and also including in-flight magazines, sponsorships, online initiatives and consumer research.

In fiscal 2009, the Company optimized its online marketing efforts for all brands. Online advertisements appeared on highly visited sites. The Company also utilized paid search at the main internet search sites. The Company used local online advertising for sites catering to company and franchise geographic locations. Ruth s Chris website was upgraded with additional functionality to allow restaurants to promote local events in their community. A Catering micro-site was launched in conjunction with the national launch of Ruth s Chris catering. Additionally, we created Wireless Application Protocol enabled mobile sites for Blackberry and iPhone devices. The Company s online strategy also included an increased emphasis on targeted emails with special offers and announcements. Communication included seasonal specials, holiday offers, and personalized birthday and anniversary invitations.

Ruth s Chris Steak House s current food-focused advertising campaign is integrated into all marketing communications including television, radio, print and outdoor advertisement. In addition, the Company uses its websites, www.ruthschris.com, www.mitchellsfishmarket.com, www.mitchellssteakhouse.com and www.camerons-steakhouse.com to help increase brand identity and facilitate online reservations and gift card sales. In fiscal 2009, Ruth s Chris Steak House participated in co-branded campaigns with American Express Membership Rewards program and participated in direct marketing initiatives. Many of the Company s locations also schedule events to strengthen community ties and increase local market presence. The Company s franchisees also conduct their own local media and advertising plans.

At Mitchell s and Columbus Fish Markets Fish any Fresher would still be in the Ocean advertising campaign and branding message is integrated into all marketing communications. Local-radio DJ endorsements and local print media placements are used to keep the concept top of mind with consumers and several sweepstakes throughout the year provide a valuable means of extending reach and gathering consumer data.

Mitchell s and Cameron s Steakhouses receive marketing support with print media, as well as targeted sponsorship opportunities in their communities.

Table of Contents

Gift Cards

The Company sells Ruth s Chris gift cards at its Ruth s Chris Steak House restaurants (with the exception of its Aruba, Hong Kong, Japan and Taiwan locations), through its toll-free reservation system and on its website. In 2009, the online ordering site was updated and streamlined to include new functionality such as the ability to ship multiple cards to multiple addresses within one order. Ruth s Chris patrons frequently purchase gift cards for holidays, including Christmas, Hanukkah, Valentine s Day, Mothers Day and Fathers Day, and other special occasions such as birthdays, graduations and anniversaries. These gift cards are popular as holiday gifts and among business professionals celebrating promotions. In fiscal 2009, system-wide gift card sales were approximately $40.8 million. Ruth s Chris gift cards are redeemable at both company- and franchise-owned Ruth s Chris restaurants.

The Company sells Mitchell s gift cards at its Mitchell s Steak House and Mitchell s Fish Market restaurants and on its website. In fiscal 2009, system-wide gift card sales were approximately $2.5 million. Mitchells gift cards are redeemable at Mitchell s Fish Market, Mitchell s Steakhouse, Columbus Fish Market and Cameron s Steakhouse restaurants.

Franchise Program and Relationship

The Company s 66 franchise-owned Ruth s Chris restaurants are owned by 27 franchisees with the three largest franchisees owning nine, eight, and six restaurants, respectively. Currently, the Company has open agreements with franchisees for an aggregate of 17 additional Ruth s Chris restaurants. Prior to 2004, each franchisee entered into a ten-year franchise agreement with three ten-year renewal options for each restaurant. Each agreement grants the franchisee territorial protection, with the option to develop a certain number of restaurants in their territory. The Company s franchise agreements generally include termination clauses in the event of nonperformance by the franchisee and non-compete clauses if the agreement is terminated. To date, only five franchisees have had the Company s franchise agreement terminated or a restaurant closed as a result of nonperformance.

Under the Company s franchise program, the Company offers certain services and licensing rights to the franchisee to help maintain consistency in system-wide operations. The Company s services include training of personnel, site selection and construction assistance, providing the new franchisee with standardized operating procedures and manuals, business and financial forms, consulting with the new franchisee on purchasing and supplies and performing supervisory quality control services. The Company conducts reviews of its franchisee-owned restaurants on an ongoing basis, in order to ensure compliance with its standards.

Under the Company s franchise program, each franchise arrangement consists of a development agreement, if multiple restaurants are to be developed, with a separate franchise agreement executed for each restaurant. The Company s new form of development agreement grants exclusive rights to a franchisee to develop a minimum number of restaurants in a defined area, typically during a five-year period. Individual franchise agreements govern the operation of each restaurant opened and have a 20-year term with two renewal options each for additional 10-year terms if certain conditions are met. The Company s new form of franchise agreement requires franchisees to pay a 5% royalty on gross revenues plus up to a 1% advertising fee applied to national advertising expenditures. Under the Company s prior form of franchise agreement, franchisees pay a 5% royalty on gross revenues, of which the Company has applied 1% to national advertising.

Under the Company s form of development agreement, and unless agreed otherwise, the Company collects a $50,000 development fee, which is credited toward the $150,000 franchise fee, for each restaurant the franchisee has rights to develop. Under the Company s new form of the franchise agreement, it collects up to $150,000 of the franchise fee at the time of executing the franchise agreement for each restaurant. If one restaurant is to be developed, a single unit franchise agreement is executed and the $150,000 franchise fee is collected at signing. To date, the Company has used its new form of agreement with fourteen new franchisees (four of which are located outside of the United States) and five existing franchisees.

Table of Contents

The Company s existing franchise agreements signed before 2004 generally limit the number of restaurants each franchisee can develop to two. The Company expanded its domestic franchise base in 2004 by first offering existing franchisees the opportunity to open additional restaurants in its existing territories. In order to obtain these new rights, existing franchisees were required to sign the Company s new form of development and franchise agreement which commits the franchisee to a store development schedule. These new franchise rights and obligations enable the Company to better manage the growth of its franchise system. The Company anticipates opening one to three franchise restaurants in 2010.

The Company currently is evaluating plans to franchise Mitchell s Fish Market.

Information Systems and Restaurant Reporting

All of the Company s restaurants use computerized point-of-sale systems, which are designed to improve operating efficiency, provide corporate management timely access to financial and marketing data and reduce restaurant and corporate administrative time and expense. These systems record each order and print the food requests in the kitchen for the cooks to prepare. The data captured for use by operations and corporate management includes gross sales amounts, cash and credit card receipts and quantities of each menu item sold. Sales and receipts information is generally transmitted to the corporate office daily, where it is reviewed and reconciled by the accounting department before being recorded in the accounting system.

The Company s corporate systems provide management with operating reports that show company-owned restaurant performance comparisons with budget and prior year results. These systems allow the Company to monitor company-owned restaurant sales, food and beverage costs, labor expense and other restaurant trends on a regular basis.

Service Marks

The Company has registered the main service marks Ruth s Chris and its Ruth s Chris Steak House, U.S. Prime & Design logo, as well as other service marks used by its restaurants, including Mitchell s Fish Market and the common law service marks Mitchell s Steakhouse, Columbus Fish Market and Cameron s Steakhouse, with the United States Patent and Trademark Office and in the foreign countries in which its restaurants operate. The Company has also registered in other foreign countries in anticipation of new store openings within those countries. The Company is not aware of any infringing uses that could materially affect its business. The Company believes that its service marks are valuable to the operation of its restaurants and are important to its marketing strategy.

Seasonality

The Company s business is subject to seasonal fluctuations. Historically, the percentage of its annual revenues earned during the first and fourth fiscal quarters have been higher due, in part, to increased restaurant sales during the year-end holiday season.

Table of Contents

Employees

As of December 27, 2009, the Company employed 5,603 persons, of whom 475 were salaried and 5,128 were hourly personnel, who were employed in the positions set forth in the table below. None of the Company s employees are covered by a collective bargaining agreement.

Functional Area	Number of Employees
Senior Officers / Corporate VPs / Operations VPs	25
General Managers	82
Managers	149
Regional Corporate Chefs / Executive Chefs	94
Sous Chefs	72
Non-salaried restaurant staff	5,125
Corporate salaried	53
Corporate non-salaried	3
Total number of employees	5,603

Executive Officers of the Registrant

Certain information regarding our executive officers is provided below:

Name	Age	Position
Michael P. O Donnell	53	President and Chief Executive Officer
Robert M. Vincent	57	Executive Vice President and Chief Financial Officer
Kevin W. Toomy	55	President, Chief Operating Officer of Ruth s Chris Steak House
Samuel A. Tancredi	57	President, Chief Operating Officer of Mitchell s Fish Market

Michael P. O Donnell has served as the Company s President and Chief Executive Officer since August 2008. Prior to that, Mr. O Donnell served as the Chief Executive Officer, President and Chairman of the Board of Champps Entertainment, Inc., an experience that culminated in the successful sale of the company to Fox and Hound Restaurant Group in late 2007. Prior to that, Mr. O Donnell held the position of President, Chief Executive Officer and Director of Sbarro, Inc., where he was responsible for all operational and strategic aspects of managing more than 1,000 restaurants including Sbarro, Boulder Creek Steak & Saloon, Rothmann s Steakhouse and Carmela s of Brooklyn brands. Additionally, Mr. O Donnell held the position of President and Chief Executive Officer of New Business at Outback Steakhouse, Inc., where he was responsible for all non-Outback Steakhouse brands. Prior to that, he served as President of the Roy s brand at Outback Steakhouse, Inc. Mr. O Donnell serves on the Board of Directors for Ruth s Hospitality Group, Inc., Cosi, Inc., Sbarro, Inc., and Logan s Roadhouse, Inc.

Robert M. Vincent has served as the Company s Executive Vice President and Chief Financial Officer of Ruth s Hospitality Group, Inc., since March 2008. From 2000 to 2008, Mr. Vincent served as Executive Vice President Finance, Chief Financial Officer and Treasurer of Uno Restaurant Holdings Corporation, where he was responsible for the management of all accounting and financial activity for the system of more than 200 company-owned and franchised casual full-service restaurants. From 1992 to 2000, Mr. Vincent served as the Senior Vice President Finance, Chief Financial Officer and Treasurer, and Vice President Finance and Controller of Uno Restaurant Holdings Corporation. Additionally, Mr. Vincent served as the Chief Financial Officer for Omega Corporation from 1988 to 1992 and as the Vice President Finance for Boston Restaurant Associates, Inc. from 1985 to 1988, where he was responsible for the management of financial activity for a chain of retail restaurants.

Kevin W. Toomy has served as President and Chief Operating Officer of Ruth s Chris Steak House since March 2010. Prior to his promotion, Mr. Toomy served as the Company s Senior Vice President since October 2008 and Vice President of Special Projects from September 2008 to October 2008. Prior to that, from August

2007 to September 2008, he served as an independent restaurant consultant. Prior to that, from October 2002 to August 2007, he served as Owner and President of Goldcoast Seafood Grill in South Florida. He started his career serving as a General Manager for Steak & Ale, Corporation, and shortly thereafter, joined two former Steak & Ale executives to grow the now nationwide Houston s restaurant brand. Kevin has also been a joint venture partner for the Roy s and Outback Steakhouse brands.

Samuel A. Tancredi has served as the Company s President and Chief Operating Officer of Mitchell s Fish Market since March 2010. Prior to his promotion, Mr. Tancredi served as our Senior Vice President since December 2008. From May 2006 until his appointment as an officer of the Company, Mr. Tancredi was a Franchisee and Chief Operating Officer of six Paradise Bakery & Cafes in Indianapolis, Indiana. From February 2001 to October 2006, Mr. Tancredi served as President, Franchisee and Development Partner of nine Bonefish Grills for Indianapolis, Indiana based Fishbuds Inc. Prior to that, Mr. Tancredi served in leadership roles with Outback Steakhouse, Inc., Chi Chi s and The Magic Pan.

Government Regulation

The Company is subject to extensive federal, state and local government regulation, including regulations relating to public health and safety, zoning and fire codes and the sale of alcoholic beverages and food. The Company maintains the necessary restaurant, alcoholic beverage and retail licenses, permits and approvals. Federal and state laws govern the Company s relationship with its employees, including laws relating to minimum wage requirements, overtime, tips, tip credits and working conditions. A significant number of the Company s hourly employees are paid at rates related to the federal or state minimum wage.

The offer and sale of franchises are subject to regulation by the U.S. Federal Trade Commission (FTC) and many states. The FTC requires that the Company furnish to prospective franchisees a franchise disclosure document containing prescribed information. A number of states also regulate the sale of franchises and require state registration of franchise offerings and the delivery of a franchise disclosure document to prospective franchisees. The Company s noncompliance could result in governmental enforcement actions seeking a civil or criminal penalty, rescission of a franchise, and loss of its ability to offer and sell franchises in a state, or a private lawsuit seeking rescission, damages and legal fees.

Competition

The restaurant business is highly competitive and highly fragmented, and the number, size and strength of the Company s competitors vary widely by region. The Company believes that restaurant competition is based on, among other things, quality of food products, customer service, reputation, restaurant location, name recognition and price. The Company s restaurants compete with a number of upscale steakhouses and upscale casual seafood restaurants within their markets, both locally owned restaurants and restaurants within regional or national chains. The principal upscale steakhouses with which the Company competes are Fleming s, The Capital Grille, Smith & Wollensky, The Palm, Del Frisco s and Morton s of Chicago. The principal seafood restaurants with which the Company competes are McCormick & Schmick s, Legal Seafood, Bonefish Grill and The Oceanaire Seafood Room. Many of the Company s competitors are better established in certain of its existing markets and/or markets into which it intends to expand.

Available Information

The Company maintains a website on the Internet at **www.rhgi.com**. The Company makes available free of charge, through the investor relations section of its website, its Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports electronically filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934. Such information is available as soon as reasonably practicable after it files such reports with the SEC. Additionally, our Code of Ethics may be accessed within the Investor Relations section of our website. Information found on our website is not part of this Annual Report on Form 10-K or any other report filed with the SEC.

Item 1A. RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating the Company and its business. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known to us or that the Company currently deems immaterial may also impair its business operations. If any of these certain risks and uncertainties were to actually occur, the Company s business, financial condition or results of operations could be materially adversely affected. In such case, the trading price of the Company s common stock could decline and its investors may lose all or part of their investment. These risks and uncertainties include, but are not limited to, the following:

Current levels of market volatility and the contraction of the capital and real estate markets are unprecedented and are unlikely to improve in the near future, which could adversely affect our business and results of operations and increase the volatility of our common stock.

Dramatic declines in the housing market, with falling home prices and increasing foreclosures and unemployment, have resulted in significant market turmoil and tightening of credit. In turn, this has led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The Company currently anticipates that the difficult conditions in the financial markets are not likely to improve in the near future. The significant deterioration in economic conditions in any of the Company s markets has and will continue to reduce guest traffic and required certain of the Company s affected restaurants to lower their prices, which reduce the Company s total revenues and operating income. For the fourth fiscal quarter of 2009, the Company s Ruth s Chris company-owned restaurants experienced an 11.2% decrease in comparable restaurants sales compared with the fourth fiscal quarter of 2008. Ruth s Chris company-owned restaurants generated reduced average unit volumes of approximately $4.0 million in fiscal 2009, compared to average unit volumes of approximately $4.9 million in fiscal 2008. The Company believes these economic conditions and market volatility have and may continue to adversely affect the price of its common stock. Any changes in economic conditions, or a continuation or increase in the severity of the current economic downturn would affect the Company s ability to attract guests or price its menu items at favorable levels, which would result in significant reductions in revenue and/or operating income and, in turn, the market price for its common stock.

Market volatility could adversely affect our stock price.

Many factors affect the trading price of our stock, including factors over which we have no control, such as reports on the economy or the price of commodities, as well as negative or positive announcements by competitors, regardless of whether the report relates directly to our business. In addition to investor expectations, trading activity in our stock can reflect the portfolio strategies and investment allocation changes of institutional holders and non-operating initiatives such as a share repurchase program. Any failure to meet market expectations whether for sales growth rates, earnings per share or other metrics could adversely affect our share price.

Turmoil in the financial services industry, volatility in securities trading markets and general economic downturns may adversely affect our ability to access the credit and capital markets to finance a portion of our working capital requirements and support our liquidity needs.

The Company has exposure to many different financial institutions and counterparties including under its existing senior credit facility and other credit and financing arrangements, including interest rate swaps. Many of these transactions expose the Company to credit risk in the event that any of its lenders or counterparties are unable to honor its commitments or otherwise defaults under a financing agreement. Credit and capital markets have recently experienced a great deal of turmoil, and certain leading financial institutions have either declared bankruptcy or have shown significant deterioration in their financial stability. If any of these counterparties

declares bankruptcy and/or becomes insolvent, they may not be able to perform under their contracts with the Company, which could leave the Company with reduced or no senior credit facility or unhedged against changes in interest rates. The constriction of the credit markets, if not alleviated, could increase the Company s cost of borrowing or limit its ability to obtain additional financing on terms it finds acceptable. Any significant limitations on its ability to access the financing provided under our existing credit facility or under any of the Company s other credit or financing arrangements could materially and adversely affect the Company s business and results of operations.

Negative publicity surrounding the Company s restaurants or the consumption of beef generally, or shifts in consumer tastes, could reduce sales in one or more of our restaurants and make our brand less valuable.

The Company s success depends, in large part, upon the popularity of its menu offerings. Negative publicity resulting from poor food quality, illness, injury or other health concerns (including e-coli, Bovine Spongiform Encephalopathy (mad cow disease), Hepatitis A and foot and mouth disease), whether related to one of the Company s restaurants or to the beef or seafood industries in general, or operating problems related to one or more restaurants, could make the Company s menu offerings less appealing to consumers and reduce demand in its restaurants. In addition, any other shifts in consumer preferences away from the kinds of food the Company offers, particularly beef and seafood, whether because of dietary or other health concerns or otherwise, would make its restaurants less appealing and adversely affect revenues.

In addition, some types of seafood have been subject to adverse publicity due to certain levels of contamination at their source, which can adversely affect both supply and market demand. The Company s Mitchell s restaurants maintain an in-house inspection program for seafood purchases and, in the past, have not experienced any detriment from contaminated seafood. However, future seafood contamination or inadequate supplies of seafood could have a significant and materially adverse effect on the Company s operating results and profitability.

The Company may not be able to compete successfully with other restaurants, which could reduce its revenues.

The restaurant industry is intensely competitive with respect to price, service, location, food quality, atmosphere and overall dining experience. The Company s competitors include a large and diverse group of well-recognized upscale steakhouse and upscale casual restaurant chains, including steakhouse and seafood chains as well as restaurants owned by independent local operators. Some of the Company s competitors may have substantially greater financial, marketing and other resources, and may be better established in the markets where its restaurants are or may be located. If the Company cannot compete effectively in one or more of its markets, the Company may be unable to maintain recent levels of comparable restaurant sales growth and/or may be required to close existing restaurants.

Health concerns arising from outbreaks of flu viruses or other diseases may have an adverse effect on our business.

The United States and other countries have experienced, or may experience in the future, outbreaks of viruses, such as norovirus, Avian Flu or SARS , and H1N1 or swine flu , or other diseases. If a virus is transmitted by human contact, our employees or guests could become infected, or could choose, or be advised, to avoid gathering in public places, any of which could adversely affect our restaurant guest traffic, and our ability to adequately staff our restaurants, receive deliveries on a timely basis or perform functions at the corporate level. We also could be adversely affected if jurisdictions in which we have restaurants impose mandatory closures, seek voluntary closures or impose restrictions on operations. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or significant health risk may adversely affect our business.

Table of Contents

If the Company s vendors or distributors do not deliver food and beverages in a timely fashion it may experience short-term supply shortages and/or increased food and beverage costs.

The Company s ability to maintain consistent quality throughout company-owned restaurants depends in part upon its ability to purchase USDA Prime and Choice grade beef, seafood and other food products in accordance with its rigid specifications. During fiscal 2009, the Company purchased more than 60% of the beef it used in company-owned restaurants from one vendor, New City Packing Company, Inc. In addition, the Company currently has a long-term distribution arrangement with a national food and restaurant supply distributor, Distribution Market Advantage, Inc. (DMA), which purchases products for the Company from various suppliers, and through which all 64 of its company-owned Ruth s Chris Steak House restaurants receive a significant portion of their food supplies. The Company also purchased more than 80% of the fresh seafood served in its Mitchell s Fish Market from two vendors, Michael s Finer Meats and Seafood and Save On Seafood Company. If these or other vendors or distributors cease doing business with the Company, it could experience short-term supply shortages in certain company-owned restaurants and could be required to purchase supplies at higher prices until the Company is able to secure an alternative supply source. Any delay the Company experiences in replacing vendors or distributors on acceptable terms could increase food costs or, in extreme cases, require it to temporarily remove items from the menu of one or more restaurants.

Increases in the prices of, or reductions in the availability of, any of our core food products could reduce the Company s operating margins and revenues.

The Company purchases large quantities of beef, particularly USDA Prime grade beef, which is subject to extreme price fluctuations due to seasonal shifts, climate conditions, industry demand and other factors. The Company s beef costs represented approximately 34.0% of its food and beverage costs during fiscal 2009. During fiscal 2009, the Company entered into contracts with beef suppliers to establish set pricing on a portion of its anticipated beef purchases. In fiscal 2010, the Company has negotiated set pricing for approximately 50% of its prime beef requirements, which represents 25% of its beef purchases. The market for USDA Prime grade beef is particularly volatile.

In the recent past, certain types of seafood have experienced fluctuations in availability. Seafood is also subject to fluctuations in price based on availability, which is often seasonal. If certain types of seafood are unavailable, or if our costs increase, our results of operations could be adversely affected.

Labor shortages or increases in labor costs could slow the Company s growth or harm its business.

The Company s success depends in part upon its ability to continue to attract, motivate and retain employees with the qualifications to succeed in its industry and the motivation to apply the Company s core service philosophy, including regional operational managers, restaurant general managers and chefs. If the Company is unable to continue to recruit and retain sufficiently qualified individuals, its business and growth could be adversely affected. Competition for these employees could require the Company to pay higher wages, which could result in higher labor costs. In addition, the Company has a substantial number of hourly employees who are paid wage rates at or based on the federal or state minimum wage and who rely on tips as a large portion of their income. Increases in the minimum wage or decreases in allowable tip credits would increase the Company s labor costs. The Company may be unable to increase its prices in order to pass these increased labor costs on to its guests, in which case its margins would be negatively affected.

Regulations affecting the operation of the Company s restaurants could increase operating costs and restrict growth.

Each of the Company s restaurants must obtain licenses from regulatory authorities allowing it to sell liquor, beer and wine, and each restaurant must obtain a food service license from local health authorities. Each restaurant s liquor license must be renewed annually and may be revoked at any time for cause, including

violation by the Company or its employees of any laws and regulations relating to the minimum drinking age, advertising, wholesale purchasing and inventory control. In certain states, including states where the Company has a large number of restaurants or where it plans to open restaurants in the near term, the number of liquor licenses available is limited and licenses are traded at market prices. If the Company is unable to maintain existing licenses, or if it chooses to open a restaurant in those states, the cost of a new license could be significant. Obtaining and maintaining licenses is an important component of each of the Company s restaurant s operations, and the failure to obtain or maintain food and liquor licenses and other required licenses, permits and approvals would materially adversely impact existing restaurants or the Company s growth strategy.

The Company is also subject to a variety of federal and state labor laws, such as minimum wage and overtime pay requirements, unemployment tax rates, workers compensation rates and citizenship requirements. Government-mandated increases in minimum wages, overtime pay, paid leaves of absence and mandated health benefits, or increased tax reporting and tax payment requirements for employees who receive gratuities, or a reduction in the number of states that allow tips to be credited toward minimum wage requirements could increase the Company s labor costs and reduce its operating margins. In addition, the Federal Americans with Disabilities Act prohibits discrimination on the basis of disability in public accommodations and employment. Although the Company s restaurants are designed to be accessible to the disabled, it could be required to make modifications to its restaurants to provide service to, or make reasonable accommodations for, disabled persons.

The Company s strategy to open franchisee-owned restaurants subjects it to extensive government regulation, compliance with which might increase its investment costs and restrict its growth.

The Company is subject to the rules and regulations of the FTC and various state laws regulating the offer and sale of franchises. The FTC requires that the Company furnish to prospective franchisees a franchise disclosure document containing prescribed information and can restrict its ability to sell franchises. A number of states also regulate the sale of franchises and require the obtaining of a permit and/or registration of the franchise disclosure document with state authorities and the delivery of the franchise disclosure document to prospective franchisees. Non-compliance with those laws could result in governmental enforcement actions seeking a civil or criminal penalty, rescission of a franchise, and loss of the Company s ability to offer and sell franchises in a state, or a private lawsuit seeking rescission, damages and legal fees, which could have a material adverse effect on its business.

The Company s franchisees could take actions that harm its reputation and reduce its royalty revenues.

The Company does not exercise control over the day-to-day operations of its franchisee-owned restaurants. While the Company attempts to ensure that franchisee-owned restaurants maintain the same high operating standards that it demands of company-owned restaurants, one or more of these restaurants may fail to maintain these standards. Any operational shortcomings of the Company s franchisee-owned restaurants are likely to be attributed to its system-wide operations and could adversely affect its reputation and damage its brand as well as have a direct negative impact on the royalty income it receives from those restaurants.

The Company s failure to enforce its service marks or other proprietary rights could adversely affect its competitive position or the value of its brands.

The Company owns certain common law service mark rights and a number of federal and international service mark registrations, most importantly the Ruth s Chris Steak House, Mitchell s and Cameron s names and logos, copyrights relating to text and print uses, and other proprietary intellectual property rights. The Company believes that its service marks, copyrights and other proprietary rights are important to its success and competitive position. Protective actions the Company takes with respect to these rights may fail to prevent unauthorized usage or imitation by others, which could harm the Company s reputation, brand or competitive position and, if the Company commences litigation to enforce its rights, cause us to incur significant legal expenses.

Table of Contents

Litigation concerning food quality, health and other issues could require the Company to incur additional liabilities and/or cause guests to avoid its restaurants.

Occasionally, the Company s guests file complaints or lawsuits against it alleging that the Company is responsible for some illness or injury they suffered at or after a visit to its restaurants. The Company is also subject to a variety of other claims arising in the ordinary course of its business, including personal injury claims, contract claims, claims from franchisees, claims alleging violations of federal and state law regarding workplace and employment matters and discrimination and similar matters. In addition, the Company could become subject to class action lawsuits related to these matters in the future. For example, in fiscal 2005 the Company settled a class-action claim based on violation of wage and hour laws in California. The restaurant industry has also been subject to a growing number of claims that the menus and actions of restaurant chains have led to the obesity of certain of their guests. In addition, the Company is subject to dram shop statutes. These statutes generally allow a person injured by an intoxicated person to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Recent litigation against restaurant chains has resulted in significant judgments, including punitive damages, under dram shop statutes. Regardless of whether any claims against the Company are valid or whether it is liable, claims may be expensive to defend and may divert time and money away from the Company s operations and hurt its performance. A judgment significantly in excess of the Company s insurance coverage for any claims would materially adversely affect its financial condition and results of operations. Adverse publicity resulting from these claims may negatively impact revenues at one or more of the Company s restaurants.

The terms of the Company s senior credit agreement may restrict its ability to operate its business and to pursue its business strategies.

$274,748	$1,362,753	$1,345,996	$1,831,523	$1,838,039		
Construction revenues	105,972	96,776	272,580	245,781	364,121	318,853
Total operating revenues	374,422	371,524	1,635,333	1,591,777	2,195,644	2,156,892
Operating expenses:						
Net cost of gas sold	134,030	141,825	839,309	834,453	1,091,050	1,107,594
Operations and maintenance	87,489	83,222	256,298	250,847	336,659	336,934
Depreciation and amortization	48,650	46,271	144,128	136,348	190,294	179,967
Taxes other than income taxes	8,103	7,848	27,913	28,253	37,213	37,495
Construction expenses	93,679	83,902	243,946	214,887	323,091	276,489
Total operating expenses	371,951	363,068	1,511,594	1,464,788	1,978,307	1,938,479
Operating income	2,471	8,456	123,739	126,989	217,337	218,413
Other income and (expenses):						
Net interest deductions	(21,012)	(22,619)	(64,270)	(65,888)	(86,854)	(87,967)
Net interest deductions on subordinated debentures	(1,933)	(1,932)	(5,797)	(5,795)	(7,729)	(7,726)
Other income (deductions)	(4,163)	597	(4,572)	6,870	(4,806)	11,351
Total other income and (expenses)	(27,108)	(23,954)	(74,639)	(64,813)	(99,389)	(84,342)

Income (loss) before income taxes	(24,637)	(15,498)	49,100	62,176	117,948	134,071
Income tax expense (benefit)	(7,951)	(6,180)	19,359	22,067	45,070	47,255
Net income (loss)	$(16,686)	$(9,318)	$29,741	$40,109	$72,878	$86,816
Basic earnings (loss) per share	$(0.38)	$(0.22)	$0.69	$0.95	$1.69	$2.06
Diluted earnings (loss) per share	$(0.38)	$(0.22)	$0.68	$0.94	$1.68	$2.04
Dividends declared per share	$0.225	$0.215	$0.675	$0.645	$0.89	$0.85
Average number of common shares outstanding	43,581	42,448	43,307	42,219	43,150	42,060
Average shares outstanding (assuming dilution)	-	-	43,610	42,607	43,464	42,469

The accompanying notes are an integral part of these statements.

3

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)
(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30,		TWELVE MONTHS ENDED SEPTEMBER 30,	
	2008	2007	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES:				
Net income	$ 29,741	$ 40,109	$ 72,878	$ 86,816
Adjustments to reconcile net income to net				
cash provided by operating activities:				
Depreciation and amortization	144,128	136,348	190,294	179,967
Deferred income taxes	17,855	(17,456)	51,379	(3,383)
Changes in current assets and liabilities:				
Accounts receivable, net of allowances	84,436	97,711	8,993	(5,828)
Accrued utility revenue	42,300	40,800	(100)	500
Deferred purchased gas costs	21,602	93,152	17,599	79,825
Accounts payable	(141,042)	(173,942)	(12,108)	(10,615)
Accrued taxes	(7,175)	6,236	(29,948)	2,804
Other current assets and liabilities	50,708	63,935	11,745	9,185
Other	4,787	(5,844)	3,370	(7,486)
Net cash provided by operating activities	247,340	281,049	314,102	331,785
CASH FLOW FROM INVESTING ACTIVITIES:				
Construction expenditures and property additions	(221,862)	(255,001)	(307,736)	(366,036)
Change in restricted cash	-	-	-	19,332
Change in customer advances	4,822	21,341	7,889	27,088
Miscellaneous inflows	44,194	4,700	44,803	7,153
Miscellaneous outflows	(2,762)	(2,053)	(21,486)	(5,862)
Net cash used in investing activities	(175,608)	(231,013)	(276,530)	(318,325)
CASH FLOW FROM FINANCING ACTIVITIES:				
Issuance of common stock, net	26,366	26,735	34,728	39,033
Dividends paid	(28,804)	(26,814)	(38,261)	(35,612)
Issuance of long-term debt	102,460	101,956	129,098	94,633
Retirement of long-term debt	(132,504)	(105,869)	(168,726)	(108,271)
Change in long-term portion of credit facility	(49,076)	(46,000)	(76)	(16,000)
Change in short-term debt	(9,000)	-	-	-
Net cash used in financing activities	(90,558)	(49,992)	(43,237)	(26,217)
Change in cash and cash equivalents	(18,826)	44	(5,665)	(12,757)
Cash at beginning of period	31,991	18,786	18,830	31,587

Cash at end of period	$	13,165	$	18,830	$	13,165	$	18,830
Supplemental information:								
Interest paid, net of amounts capitalized	$	69,309	$	68,139	$	94,505	$	91,244
Income taxes paid		5,278		19,233		31,070		34,116

The accompanying notes are an integral part of these statements.

4

Note 1 – Nature of Operations and Basis of Presentation

Nature of Operations. Southwest Gas Corporation and its subsidiaries (the "Company") are composed of two segments: natural gas operations ("Southwest" or the "natural gas operations" segment) and construction services (Northern Pipeline Construction Co. "NPL" or the "construction services" segment). Southwest is engaged in the business of purchasing, distributing, and transporting natural gas to customers in portions of Arizona, Nevada, and California. The public utility rates, practices, facilities, and service territories of Southwest are subject to regulatory oversight. The timing and amount of rate relief can materially impact results of operations. Natural gas sales are seasonal, peaking during the winter months; therefore, results of operations for interim periods are not necessarily indicative of the results for a full year. Variability in weather from normal temperatures can materially impact results of operations. Natural gas purchases and the timing of related recoveries can materially impact liquidity. NPL, a wholly owned subsidiary, is a full-service underground piping contractor that provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

Basis of Presentation. The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments, consisting of normal recurring items and estimates necessary for a fair presentation of the results for the interim periods, have been made. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the 2007 Annual Report to Shareholders, which is incorporated by reference into the 2007 Form 10-K, and the first and second quarter 2008 reports on Form 10-Q.

Intercompany Transactions. NPL recognizes revenues generated from contracts with Southwest (see Note 3 below). Accounts receivable for these services were $6.9 million at September 30, 2008 and $6.1 million at December 31, 2007. The accounts receivable balance, revenues, and associated profits are included in the condensed consolidated financial statements of the Company and were not eliminated during consolidation in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation."

Reclassifications. Certain reclassifications have been made to the prior year's financial information to present it on a basis comparable with the current year's presentation.

Recently Issued Accounting Pronouncements. In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (revised 2007), "Business Combinations." SFAS No. 141 (revised 2007) provides guidelines for the presentation and measurement of assets and liabilities acquired in a business combination and requires the disclosure of information necessary to evaluate the nature and financial effect of a business combination. The provisions of SFAS No. 141 (revised 2007) are effective for the Company for acquisitions that occur on or after January 1, 2009. The Company is evaluating what impact, if any, this standard might have on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51.” SFAS No. 160 requires all entities to report minority interests in subsidiaries as equity in the consolidated financial statements. The provisions of SFAS No. 160 are effective for the Company beginning January 1, 2009. The Company is evaluating what impact, if any, this standard might have on its financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133.” SFAS No. 161 requires enhanced disclosures about an entity’s derivative and hedging activities. The provisions of SFAS No. 161 are effective for the Company beginning January 1, 2009. The Company is evaluating what impact this standard might have on its financial disclosures.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies (in accounting literature instead of auditing literature) the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States (the GAAP hierarchy). The provisions of SFAS No. 162 are effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of the standard is not expected to have a material impact on the financial position or results of operations of the Company.

Note 2 – Components of Net Periodic Benefit Cost

Southwest has a noncontributory qualified retirement plan with defined benefits covering substantially all employees and a separate unfunded supplemental retirement plan ("SERP") which is limited to officers. Southwest also provides postretirement benefits other than pensions ("PBOP") to its qualified retirees for health care, dental, and life insurance benefits.

	Qualified Retirement Plan Period Ended September 30,					
	Three Months		Nine Months		Twelve Months	
	2008	2007	2008	2007	2008	2007
(Thousands of dollars)						
Service cost	$ 4,027	$ 4,123	$ 12,081	$ 12,368	$ 16,204	$ 16,439
Interest cost	8,123	7,311	24,368	21,933	31,679	28,635
Expected return on plan assets	(8,679)	(8,257)	(26,035)	(24,773)	(34,292)	(32,425)
Amortization of prior service costs (credits)	(3)	(3)	(8)	(8)	(11)	(10)
Amortization of net loss	776	1,252	2,328	3,755	3,580	5,093
Net periodic benefit cost	$ 4,244	$ 4,426	$ 12,734	$ 13,275	$ 17,160	$ 17,732

	SERP Period Ended September 30,					
	Three Months		Nine Months		Twelve Months	
	2008	2007	2008	2007	2008	2007
(Thousands of dollars)						
Service cost	$ 24	$ 38	$ 73	$ 115	$ 111	$ 168
Interest cost	510	487	1,531	1,461	2,018	1,934
Expected return on plan assets	-	-	-	-	-	2
Amortization of net loss	250	283	748	848	1,031	1,159
Net periodic benefit cost	$ 784	$ 808	$ 2,352	$ 2,424	$ 3,160	$ 3,263

	PBOP Period Ended September 30,					
	Three Months		Nine Months		Twelve Months	
	2008	2007	2008	2007	2008	2007

(Thousands of dollars)						
Service cost	$ 182	$ 203	$ 548	$ 608	$ 751	$ 821
Interest cost	581	576	1,743	1,728	2,319	2,257
Expected return on plan assets	(534)	(536)	(1,604)	(1,608)	(2,140)	(2,063)
Amortization of transition obligation	216	216	650	650	867	867
Amortization of net loss	-	14	-	43	14	85
Net periodic benefit cost	$ 445	$ 473	$ 1,337	$ 1,421	$ 1,811	$ 1,967

6

Note 3 – Segment Information

The following tables list revenues from external customers, intersegment revenues, and segment net income (thousands of dollars):

	Natural Gas Operations	Construction Services	Total
Three months ended September 30, 2008			
Revenues from external customers	$ 268,450	$ 88,034	$ 356,484
Intersegment revenues	-	17,938	17,938
Total	$ 268,450	$ 105,972	$ 374,422
Segment net income (loss)	$ (19,678)	$ 2,992	$ (16,686)
Three months ended September 30, 2007			
Revenues from external customers	$ 274,748	$ 77,445	$ 352,193
Intersegment revenues	-	19,331	19,331
Total	$ 274,748	$ 96,776	$ 371,524
Segment net income (loss)	$ (12,863)	$ 3,545	$ (9,318)
Nine months ended September 30, 2008			
Revenues from external customers	$ 1,362,753	$ 225,558	$ 1,588,311
Intersegment revenues	-	47,022	47,022
Total	$ 1,362,753	$ 272,580	$ 1,635,333
Segment net income	$ 24,748	$ 4,993	$ 29,741
Nine months ended September 30, 2007			
Revenues from external customers	$ 1,345,996	$ 192,602	$ 1,538,598
Intersegment revenues	-	53,179	53,179
Total	$ 1,345,996	$ 245,781	$ 1,591,777
Segment net income	$ 32,910	$ 7,199	$ 40,109
Twelve months ended September 30, 2008			
Revenues from external customers	$ 1,831,523	$ 298,893	$ 2,130,416
Intersegment revenues	-	65,228	65,228
Total	$ 1,831,523	$ 364,121	$ 2,195,644
Segment net income	$ 64,332	$ 8,546	$ 72,878
Twelve months ended September 30, 2007			
Revenues from external customers	$ 1,838,039	$ 242,956	$ 2,080,995
Intersegment revenues	-	75,897	75,897
Total	$ 1,838,039	$ 318,853	$ 2,156,892

Segment net income	$ 76,077	$ 10,739	$ 86,816

7

Note 4 – Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2008	2007	2008	2007	2008	2007
	(Thousands of dollars)					
Net income (loss)	$ (16,686)	$ (9,318)	$ 29,741	$ 40,109	$ 72,878	$ 86,816
Additional minimum pension liability adjustment, net of $20.3 million tax expense		-		-		33,047
Net actuarial gain arising during period, less amortization of unamortized benefit plan cost, net of tax	203	246	608	735	689	735
Comprehensive income (loss)	$ (16,483)	$ (9,072)	$ 30,349	$ 40,844	$ 73,567	$ 120,598

Tax expense related to the net actuarial gain arising during the period, less amortization of unamortized benefit plan cost, for the three months, nine months, and twelve months ended September 30, 2008 was $124,000, $372,000, and $422,000, respectively. Tax expense related to the net actuarial gain arising during the period, less amortization of unamortized benefit plan cost for the three months, nine months, and twelve months ended September 30, 2007 was $150,000, $450,000, and $450,000, respectively. Total accumulated other comprehensive loss as of September 30, 2008 was $12.2 million, net of $7.6 million of tax, and was composed entirely of unamortized benefit plan costs.

Note 5 – Common Stock

During the nine months ended September 30, 2008, the Company issued approximately 906,000 shares of common stock through the Dividend Reinvestment and Stock Purchase Plan (“DRSPP”), Employee Investment Plan, Management Incentive Plan, and Stock Incentive Plan. No shares have been issued through the Equity Shelf Program (“ESP”) in 2008.

Note 6 - Derivatives and Fair Value Measurements

In managing its natural gas supply portfolios, Southwest has historically entered into fixed and variable-price contracts, which qualify as derivatives under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended (“SFAS No. 133”). In 2008, Southwest also began utilizing fixed-for-floating swap contracts (“Swaps”) to supplement its fixed-price contracts. The fixed-price contracts, firm commitments to purchase a fixed amount of gas in the future at a fixed price, qualify for the normal purchases and normal sales exception that is allowed for contracts that are probable of delivery in the normal course of business under SFAS No. 133 and are exempt from its fair value provisions. The variable-price contracts have no significant market value and are likewise not affected by SFAS No. 133’s fair value provisions. Swaps are subject to the fair value provisions and must be recorded at fair value.

The fixed-price contracts and Swaps are utilized by Southwest under its volatility mitigation programs to effectively fix the price on approximately 50 percent of its natural gas portfolios. The maturities of the Swaps highly correlate to actual purchases of natural gas, during timeframes ranging from November 2008 through October 2009. Under such contracts, Southwest pays the counterparty at a fixed rate and receives from the counterparty a floating rate per MMBtu (“dekatherm”) of natural gas. Only the net differential is actually paid or received. The differential is calculated based on the notional amounts under the contracts (approximately 3.5 million dekatherms at September 30, 2008). Southwest does not utilize derivative financial instruments for speculative purposes, nor does it have trading operations.

8

Pursuant to regulatory deferral accounting treatment under SFAS No. 71, Southwest records the unrealized gains and losses in fair value of the Swaps as a regulatory asset and/or liability. When the Swaps settle, Southwest reverses any prior positions held and records the settled position as an increase or decrease of purchased gas under the related purchased gas adjustment ("PGA") mechanism in determining its deferred PGA balances. In accordance with this described treatment, at September 30, 2008, Southwest recorded the fair values of the Swaps in Other current liabilities ($10.9 million) and in Other deferred credits ($204,000). Corresponding offsetting amounts were recorded in Prepaids and other current assets ($10.9 million) and Deferred charges and other assets ($204,000). Due to the provisions of SFAS No. 71, neither changes in the fair value of the contracts nor settled amounts have a direct effect on earnings or other comprehensive income. The estimated fair values of the derivatives were determined using future natural gas index prices (as more fully described below).

In January 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 states that a fair value measurement should be based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy that ranks the inputs used to measure fair value by their reliability. The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for similar assets or liabilities, either directly or indirectly.

Level 3 - unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The estimated fair values of Southwest's Swaps were determined at September 30, 2008 using NYMEX futures settlement prices for delivery of natural gas at Henry Hub adjusted by the price of NYMEX ClearPort basis Swaps, which reflect the difference between the price of natural gas at a given delivery basin and the Henry Hub pricing points. These Level 2 inputs are observable in the marketplace throughout the full term of the Swaps.

The following table sets forth, by level within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value as of September 30, 2008.

	Fair Value Measurements Using:		
	Quoted Prices in Active Markets for Identical Financial Assets and Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs

(Thousands of dollars)	Total	Level 1	Level 2	Level 3
Assets at fair value:				
Prepaids and other current assets - swaps	$ -	$ -	$ -	$ -
Deferred charges and other assets - swaps	-	-	-	-
Liabilities at fair value:				
Other current liabilities - swaps	(10,935)	-	(10,935)	-
Other deferred credits - swaps	(204)	-	(204)	-
Net Assets (Liabilities)	$ (11,139)	$ -	$ (11,139)	$ -

Note 7 – Long-Term Debt

In September 2008, the Company issued $50 million in Clark County, Nevada variable-rate 2008 Series A Industrial Development Revenue Bonds (“IDRBs”), due 2038. The 2008 Series A IDRBs are supported by a letter of credit with JPMorgan Chase Bank. The proceeds from the 2008 Series A IDRBs were used by the Company to redeem the $50 million 2003 Series B variable-rate IDRBs. The 2003 Series B IDRBs were redeemed at par, plus accrued interest, in September 2008.

Note 8 – Other Income (Deductions)

Southwest has company-owned life insurance (“COLI”) policies on members of management and other key employees to indemnify itself against the loss of talent, expertise, and knowledge, as well as to provide indirect funding for certain nonqualified benefit plans. Other income (deductions) on the Company’s income statements includes expenses related to declines in the cash surrender value of these life insurance policies in the three, nine, and twelve months ended September 30, 2008, of $3.7 million, $6.3 million, and $7.3 million, respectively. In contrast, Other income (deductions) on the Company’s income statements includes income related to increases in the cash surrender value of these life insurance policies in the three, nine, and twelve months ended September 30, 2007, of $355,000, $2.2 million, and $3.5 million, respectively. Current tax regulations provide for tax-free treatment of life insurance (death benefit) proceeds. Therefore, the changes in the cash surrender value components of COLI policies as they progress towards the ultimate death benefits are also recorded without tax consequences. Additionally, Other income (deductions) includes interest income in the three, nine, and twelve months ended September 30, 2008, of $216,000, $2 million and $2.7 million, respectively. Other income (deductions) includes interest income in the three, nine, and twelve months ended September 30, 2007, of $869,000, $3.8 million and $5.1 million, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Southwest Gas Corporation and its subsidiaries (the "Company") consist of two business segments: natural gas operations ("Southwest" or the "natural gas operations" segment) and construction services.

Southwest is engaged in the business of purchasing, distributing, and transporting natural gas in portions of Arizona, Nevada, and California. Southwest is the largest distributor in Arizona, selling and transporting natural gas in most of central and southern Arizona, including the Phoenix and Tucson metropolitan areas. Southwest is also the largest distributor of natural gas in Nevada, serving the Las Vegas metropolitan area and northern Nevada. In addition, Southwest distributes and transports natural gas in portions of California, including the Lake Tahoe area and the high desert and mountain areas in San Bernardino County.

As of September 30, 2008, Southwest had 1,819,000 residential, commercial, industrial, and other natural gas customers, of which 984,000 customers were located in Arizona, 657,000 in Nevada, and 178,000 in California. Residential and commercial customers represented over 99 percent of the total customer base. During the twelve months ended September 30, 2008, 55 percent of operating margin was earned in Arizona, 35 percent in Nevada, and 10 percent in California. During this same period, Southwest earned 86 percent of operating margin from residential and small commercial customers, 5 percent from other sales customers, and 9 percent from transportation customers. These general patterns are expected to continue.

Southwest recognizes operating revenues from the distribution and transportation of natural gas (and related services) to customers. Operating margin is the measure of gas operating revenues less the net cost of gas sold. Management uses operating margin as a main benchmark in comparing operating results from period to period. The three principal factors affecting operating margin are general rate relief, weather, and customer growth. Of these three, weather is the primary reason for volatility in margin. Variances in temperatures from normal levels, especially in Arizona where rates remain leveraged, have a significant impact on the margin and associated net income of the Company.

Northern Pipeline Construction Co. ("NPL" or the "construction services" segment), a wholly owned subsidiary, is a full-service underground piping contractor that provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems. NPL currently operates in 20 major markets nationwide. Construction activity is cyclical and can be significantly impacted by changes in general and local economic conditions, including the housing market, interest rates, employment levels, job growth, the equipment resale market, and local and federal tax rates. Generally, revenues and profits are lowest during the first quarter of the year due to less favorable winter weather conditions. Operating results typically improve as more favorable weather conditions occur during the summer and fall months.

This Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and the notes thereto, as well as the MD&A, included in the 2007 Annual Report to Shareholders, which is incorporated by reference into the 2007 Form 10-K, and the first and second quarter 2008 reports on Form 10-Q.

11

Executive Summary

The items discussed in this Executive Summary are intended to provide an overview of the results of the Company's operations. As needed, certain items are covered in greater detail in later sections of management's discussion and analysis. As reflected in the table below, the natural gas operations segment accounted for an average of 88 percent of twelve-month-to-date consolidated net income over the past two years. As such, management's discussion and analysis is primarily focused on that segment. Natural gas sales are seasonal, peaking during the winter months; therefore, results of operations for interim periods are not necessarily indicative of the results for a full year.

Summary Operating Results

	Period Ended September 30,					
	Three Months		Nine Months		Twelve Months	
	2008	2007	2008	2007	2008	2007
	(In thousands, except per share amounts)					
Contribution to net income (loss)						
Natural gas operations	$ (19,678)	$ (12,863)	$ 24,748	$ 32,910	$ 64,332	$ 76,077
Construction services	2,992	3,545	4,993	7,199	8,546	10,739
Net income (loss)	$ (16,686)	$ (9,318)	$ 29,741	$ 40,109	$ 72,878	$ 86,816
Average number of common shares outstanding	43,581	42,448	43,307	42,219	43,150	42,060
Basic earnings (loss) per share						
Consolidated	$ (0.38)	$ (0.22)	$ 0.69	$ 0.95	$ 1.69	$ 2.06
Natural Gas Operations						
Operating margin	$ 134,420	$ 132,923	$ 523,444	$ 511,543	$ 740,473	$ 730,445

The gas segment recorded a loss of $19.7 million during the third quarter of 2008 compared to a $12.9 million loss in the same period of 2007. Other income decreased and operating expenses increased between the two periods. Other income (principally interest income, long-term investment returns, and non-utility expenses) declined primarily as a result of negative returns on long-term investments (company-owned life insurance) in the current quarter versus positive returns in the prior-year quarter. NPL's decline resulted primarily from less profitable work due to the general slow down in the housing industry and increased costs for fuel, fuel-related products, and subcontractors.

3rd Quarter 2008 Overview

Consolidated results for the third quarter of 2008 decreased compared to the third quarter of 2007, due to declines in both the gas and construction services segments. Basic loss per share was $0.38 in the third quarter of 2008 compared to a per share loss of $0.22 in the same period of 2007.

Gas operations highlights include the following:

- Operating margin increased $1.5 million, or 1 percent, from the prior period as customer growth levels continue to moderate
- Net financing costs decreased $1.5 million between periods
- Other income declined $5 million between periods primarily due to negative returns on long-term investments (COLI)
- Southwest’s project to expand its use of electronic meter reading technology is substantially complete
- Uncontested settlement reached in California rate cases (pending California Public Utilities Commission (“CPUC”) approval)
- Southwest’s liquidity position remains strong

12

Moderating Customer Growth. During the twelve months ended September 30, 2008, Southwest completed 39,000 first-time meter sets. These meter sets led to 19,000 additional active meters during the same time frame (11,000 in Arizona, 7,000 in Nevada, and 1,000 in California). The difference between first-time meter sets and incremental active meters indicates a significant inventory of unoccupied homes. The risks/costs of having non-performing assets associated with new homes are mitigated by Southwest's practice of taking construction advances from builders on most new construction. These advances are not returned until new homes are occupied. Once housing supply and demand come back into balance, Southwest expects to experience a correction in which customer additions exceed first-time meter sets. Although management cannot predict the timing of the turn around, it is likely to occur over an extended (multi-year) time horizon.

Company-Owned Life Insurance ("COLI"). Southwest has life insurance policies on members of management and other key employees to indemnify itself against the loss of talent, expertise, and knowledge, as well as to provide indirect funding for certain nonqualified benefit plans. The COLI policies have a combined net death benefit value of approximately $138 million at September 30, 2008. The net cash surrender value of these policies (which is the cash amount the Company would receive if it voluntarily terminated the policies) is approximately $52 million at September 30, 2008 and is included in the caption "Other property and investments" on the balance sheet. In the three, nine, and twelve months ended September 30, 2008, the Company recognized declines in the cash surrender values of the COLI policies, as compared to the same periods of 2007, of $4.1 million, $8.5 million, and $10.8 million, respectively, which was reflected in Other income (deductions). Current tax regulations provide for tax-free treatment of life insurance (death benefit) proceeds. Therefore, the changes in the cash surrender value components of COLI policies as they progress towards the ultimate death benefits are also recorded without tax consequences. Currently, the Company intends to hold the COLI policies for their duration and purchase additional policies as necessary.

Meter Reading Project. In 2006, Southwest initiated a project to expand its use of electronic meter reading technology. The efficiencies to be gained from this project more than offset the investment in infrastructure. This technology eliminates the need to gain physical access to meters in order to obtain monthly meter readings, thereby reducing the time associated with each meter read while improving their accuracy. At September 30, 2008, the electronic meter reading project was substantially complete as over 99 percent of Southwest customers' meters were being read electronically.

Liquidity. Southwest has a $300 million credit facility maturing in May 2012, $150 million of which supports ongoing working capital needs. The facility is composed of eight major banking institutions. Historically, usage of the facility has been low and concentrated in the first half of the winter heating period when gas purchases require temporary financing. In addition, Southwest has no significant debt maturities prior to February 2011.

SOUTHWEST GAS CORPORATION Form 10-Q
September 30, 2008

Results of Natural Gas Operations

Quarterly Analysis

	Three Months Ended September 30,	
	2008	2007
	(Thousands of dollars)	
Gas operating revenues	$ 268,450	$ 274,748
Net cost of gas sold	134,030	141,825
Operating margin	134,420	132,923
Operations and maintenance expense	87,489	83,222
Depreciation and amortization	41,623	39,774
Taxes other than income taxes	8,103	7,848
Operating income (loss)	(2,795)	2,079
Other income (expense)	(4,548)	478
Net interest deductions	20,521	22,003
Net interest deductions on subordinated debentures	1,933	1,932
Income (loss) before income taxes	(29,797)	(21,378)
Income tax expense (benefit)	(10,119)	(8,515)
Contribution to consolidated net income (loss)	$ (19,678)	$ (12,863)

Natural gas operations recorded a loss of $19.7 million in the third quarter of 2008 compared to a loss of $12.9 million in the same period of 2007. Other income declined and operating expenses increased between the periods, partially offset by a modest increase in operating margin and lower net financing costs.

Operating margin increased $1.5 million, or one percent, in the third quarter of 2008 compared to the third quarter of 2007. Customer growth contributed $1 million toward the operating margin increase as the Company added 19,000 customers during the last twelve months, an increase of one percent. Rate changes accounted for the remainder of the increase.

Operations and maintenance expense increased $4.3 million, or five percent, primarily due to general cost increases.

Depreciation expense increased $1.8 million, or five percent, as a result of construction activities. Average gas plant in service for the current period increased $238 million, or six percent, compared to the corresponding period a year ago. The increase reflects ongoing capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate customer growth.

Other income (expense), which principally includes interest income, long-term investment returns, and non-utility expenses, decreased $5 million between periods. This was primarily due to negative returns on long-term investments (COLI) in the current quarter ($3.7 million) compared to positive returns in the prior year’s quarter ($355,000).

Net financing costs decreased $1.5 million between periods primarily due to a reduction in outstanding debt.

14

Nine-Month Analysis

	Nine Months Ended September 30,	
	2008	2007
	(Thousands of dollars)	
Gas operating revenues	$ 1,362,753	$ 1,345,996
Net cost of gas sold	839,309	834,453
Operating margin	523,444	511,543
Operations and maintenance expense	256,298	250,847
Depreciation and amortization	123,565	117,380
Taxes other than income taxes	27,913	28,253
Operating income	115,668	115,063
Other income (expense)	(6,710)	5,502
Net interest deductions	62,811	64,466
Net interest deductions on subordinated debentures	5,797	5,795
Income before income taxes	40,350	50,304
Income tax expense	15,602	17,394
Contribution to consolidated net income	$ 24,748	$ 32,910

Contribution from natural gas operations decreased $8.2 million during the nine-month period of 2008 compared to the same period a year ago. The decrease in contribution was primarily caused by a decline in other income, which offset a slight improvement in operating income and lower financing costs.

Operating margin increased approximately $12 million, or two percent, during the nine-month period of 2008 compared to the same period in 2007. New customers contributed an incremental $5 million in operating margin during the current period. Rate relief in California resulted in a net $2 million increase in operating margin. Differences in heating demand primarily caused by weather variations between periods resulted in a $5 million margin increase as the current period experienced somewhat cooler temperatures while the prior period was slightly warmer-than-normal.

Operations and maintenance expense increased $5.5 million, or two percent, principally due to the impact of general cost increases. Labor efficiencies, primarily from the conversion to electronic meter reading, mitigated the increase in operations and maintenance expense.

Depreciation expense increased $6.2 million, or five percent, as a result of construction activities. Average gas plant in service increased $247 million, or six percent, as compared to the same period of 2007. The increase reflects ongoing capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate customer growth.

Other income (expense), which principally includes interest income, long-term investment returns, and non-utility expenses, declined $12.2 million during the nine-month period of 2008 compared to the same period in 2007. This was primarily due to negative returns on long-term investments (COLI) in the current period ($6.3 million) compared to positive returns in the prior year's period ($2.2 million) and a $1.8 million reduction in interest income primarily due to the full recovery of previously deferred purchased gas cost receivables.

Net financing costs decreased $1.7 million between periods primarily due to a reduction in outstanding debt.

Twelve-Month Analysis

	Twelve Months Ended September 30,	
	2008	2007
	(Thousands of dollars)	
Gas operating revenues	$ 1,831,523	$ 1,838,039
Net cost of gas sold	1,091,050	1,107,594
Operating margin	740,473	730,445
Operations and maintenance expense	336,659	336,934
Depreciation and amortization	163,275	155,022
Taxes other than income taxes	37,213	37,495
Operating income	203,326	200,994
Other income (expense)	(7,362)	8,984
Net interest deductions	84,781	86,018
Net interest deductions on subordinated debentures	7,729	7,726
Income before income taxes	103,454	116,234
Income tax expense	39,122	40,157
Contribution to consolidated net income	$ 64,332	$ 76,077

Contribution to consolidated net income from natural gas operations decreased $11.7 million in the current twelve-month period compared to the same period a year ago. The decline in contribution was primarily caused by lower other income.

Operating margin increased $10 million, or one percent, between periods. Customer growth contributed $8 million while rate changes accounted for $2 million of the increase. Warmer-than-normal temperatures were experienced during both twelve-month periods (each with estimated negative impacts to operating margin of approximately $7 million), resulting in no incremental impact between the periods.

Operations and maintenance expense was essentially unchanged between periods. Labor efficiencies, primarily from the conversion to electronic meter reading, mitigated general cost increases.

Depreciation expense increased $8.3 million, or five percent, as a result of additional plant in service. Average gas plant in service for the current twelve-month period increased $257 million, or seven percent, compared to the corresponding period a year ago. This was attributable to the upgrade of existing operating facilities and the expansion of the system to accommodate customer growth.

Other income decreased $16.3 million between periods. This was primarily due to negative returns on long-term investments (COLI) in the current twelve-month period ($7.3 million) compared to positive returns in the prior year’s twelve-month period ($3.5 million) and lower interest income ($2.4 million) primarily due to the full recovery of previously deferred purchased gas cost receivables.

Net financing costs decreased $1.2 million between periods primarily due to lower average debt outstanding.

16

Results of Construction Services

Contribution to consolidated net income for the three, nine, and twelve months ended September 30, 2008 decreased $553,000, $2.2 million, and $2.2 million, respectively, compared to the corresponding periods in 2007. Quarterly results declined primarily due to lower profit margins on new construction work in the majority of NPL's operating areas and increased costs for fuel, fuel-related products and services, and subcontractors. While revenues increased as a result of several large replacement projects, operating results decreased in the nine-month period of 2008 as compared to the same period in 2007 primarily due to lower profit margins on new construction work, unfavorable weather conditions in the first quarter of 2008, increased costs for fuel and fuel-related products and services, and a reduction in the volume of work with existing customers. The decrease in the current twelve-month period when compared to the same period in the prior year was due primarily to unfavorable weather conditions during the first quarter of 2008 and a reduction in the volume of new construction work resulting from the general slow down in the new housing market. Increased costs for fuel and fuel-related products and services also contributed to the decrease.

Rates and Regulatory Proceedings

Arizona General Rate Case. Southwest filed a general rate application with the Arizona Corporation Commission ("ACC") in the third quarter of 2007 requesting an increase in authorized operating revenues of $50.2 million. The request is due to increases in Southwest's operating costs (including inflationary increases to labor and benefits), investments in infrastructure, and increased costs of capital. Southwest is requesting a return on rate base of 9.45 percent and a return on equity of 11.25 percent.

In addition, declining average residential usage has hindered Southwest's ability to earn the returns previously authorized by the ACC. A rate structure that would encourage energy efficiency and also shield Southwest and its customers from weather-related volatility has also been proposed. Included in the new rate design proposal are a revenue decoupling mechanism that would separate the recovery of fixed costs from volumetric usage and a weather normalization mechanism that would protect customers from higher bills in extreme cold weather and protect Southwest from cost under-recoveries in unseasonably warm weather. Southwest requested an increase of $3.10 in the monthly residential basic service charge.

In April 2008, the two primary intervening parties in the case, the ACC Staff and the Residential Utility Consumer Office, filed testimony in the case. Both parties have separately advocated revenue increases which approximate 60 percent of the filed for amount, primarily through increases in basic service charges, although their positions on a number of matters differ. In addition, neither party supports all of Southwest's proposed rate design changes or the revenue decoupling/weather normalization mechanisms, both of which Southwest deems important components of its rate filing if greater margin stability (for both Southwest and its customers) is to be achieved. Hearings concluded in June 2008, with a decision expected in the fourth quarter of 2008. Management cannot predict the amount or timing of rate relief ultimately granted, or whether the ACC will adopt any of the new rate design proposals. The last general rate increase received in Arizona was effective in March 2006.

California Attrition Filing. In October 2007, Southwest made its 2008 annual attrition filing with the CPUC requesting a $2 million increase in operating margin. The increase in customer rates was approved and became effective January 2008.

California General Rate Cases. Southwest filed general rate applications with the CPUC in December 2007 requesting an increase in authorized operating revenues of $9.1 million in its southern California, northern California, and South Lake Tahoe rate jurisdictions with a proposed effective date of January 2009. The request was made due to increases in Southwest's operating costs, investments in infrastructure, and the increased costs of capital. As part of the filing, Southwest also requested that the authorized levels of margin revert to being recognized on a seasonally adjusted basis rather than in equal monthly amounts throughout the year to better reflect the seasonal nature of Southwest's revenue stream. In addition to the margin balancing mechanism that has been in place since the last general rate case, this filing proposed a Post Test Year ("PTY") ratemaking mechanism for the period 2010 through 2013. The PTY mechanism was designed to recognize the effects of inflation and certain capital expenditures between general rate cases.

In October 2008, after resolving all issues in the proceeding with intervening parties, Southwest filed an uncontested settlement with the CPUC. If approved by the CPUC, the Company will realize an increase in operating margin of $2.8 million for 2009, with an additional $9.7 million in PTY increases for the period 2010 through 2013. In addition, lower approved depreciation rates will result in depreciation expense reductions of approximately $3 million in 2009 as compared to current depreciation levels. Under the settlement, the return on common equity would be 10.5 percent. Southwest expects a final decision during the fourth quarter of 2008, with new rates effective January 2009.

PGA Filings

All of Southwest's state regulatory commissions have regulations that permit Southwest to track and recover its actual costs of purchased gas. Deferred energy provisions and purchased gas adjustment clauses are collectively referred to as “PGA” clauses. Timing differences between changes in PGA rates and the recovery/payment of PGA balances result in over- and under-collections. At September 30, 2008, over-collections in Arizona, Nevada, and California resulted in a liability of $33.7 million on the Company’s balance sheet. In May 2008, a temporary surcharge that had been in place in Arizona since February 2006 to help accelerate the recovery of an under-collected balance was removed. PGA filings are subject to audit by state regulatory commissions. PGA rate changes impact cash flows but have no direct impact on profit margin.

As of September 30, 2008, December 31, 2007, and September 30, 2007, Southwest had the following outstanding PGA balances receivable/(payable) (millions of dollars):

	September 30, 2008	December 31, 2007	September 30, 2007
Arizona	$ (6.9)	$ 33.9	$ 31.2
Northern Nevada	(5.4)	(9.2)	(10.1)
Southern Nevada	(17.0)	(36.7)	(31.9)
California	(4.4)	(0.1)	(5.3)
	$ (33.7)	$ (12.1)	$ (16.1)

Capital Resources and Liquidity

The capital requirements and resources of the Company generally are determined independently for the natural gas operations and construction services segments. Each business activity is generally responsible for securing its own financing sources. The capital requirements and resources of NPL are not material to the overall capital requirements and resources of the Company.

Gas Segment Construction Expenditures and Financing

Southwest continues to experience customer growth, albeit at a slower pace than in the recent past. This growth has required significant capital outlays primarily to extend and reinforce its distribution systems. During the twelve-month period ended September 30, 2008, construction expenditures for the natural gas operations segment were $282 million. Approximately 70 percent of these current-period expenditures represented new construction and

the balance represented costs associated with routine replacement of existing transmission, distribution, and general plant. During the twelve months ended September 30, 2008, cash flows from operating activities of Southwest were $273 million and provided approximately 85 percent of construction expenditures and dividend requirements. Other necessary funding was provided by external financing activities, existing credit facilities, and refundable construction advances. During the three, nine, and twelve months ended September 30, 2008, Southwest partially offset capital outlays by collecting approximately $6 million, $20 million, and $27 million, respectively, in net advances and contributions from customers and third-party contractors. At September 30, 2008, the balance of refundable construction advances was $91 million.

At December 31, 2007, Southwest initially estimated that construction expenditures during the three-year period ending December 31, 2010 would be approximately $850 million. Based on current economic and growth indicators, the actual amount will likely be five to eight percent less than originally estimated. During the three-year period ended December 31, 2010, cash flows from operating activities are still estimated to fund over 80 percent of the gas operations total construction expenditures and dividend requirements. Southwest also had $25 million in long-term debt maturities over the three-year period (related to debt that matured in September 2008 and was redeemed as planned). During this time frame, the Company initially expected to raise $70 million to $80 million from its various common stock programs; however, these issuances will also likely decline based on the expected reduction in construction expenditures. Any remaining cash requirements are expected to be provided by existing credit facilities and/or other external financing sources. The timing, types, and amounts of these additional external financings will be dependent on a number of factors, including conditions in the capital markets, timing and amounts of rate relief, growth levels in Southwest service areas, and earnings. These external sources may include the issuance of both debt and equity securities, bank and other short-term borrowings, customer contributions and advances, and other forms of financing.

During the nine months ended September 30, 2008, the Company issued approximately 906,000 additional shares of common stock through the DRSPP, Employee Investment Plan, Management Incentive Plan, and Stock Incentive Plan, raising approximately $26 million. No shares have been issued through the ESP in 2008 and the Company does not anticipate issuing additional shares under this plan. The $16.7 million of remaining capacity under the ESP is expected to expire unused in March 2009.

In February 2008, the Economic Stimulus Act of 2008 (“Act”) was signed into law. This Act provides a 50 percent bonus tax depreciation deduction for qualified property acquired or constructed and placed in service in 2008. Based on forecasted qualifying construction expenditures, Southwest estimates the bonus depreciation deduction will defer the payment of approximately $30 million of federal income taxes during 2008.

Dividend Policy

The Company has a common stock dividend policy which states that common stock dividends will be paid at a prudent level that is within the normal dividend payout range for its respective businesses, and that the dividend will be established at a level considered sustainable in order to minimize business risk and maintain a strong capital structure throughout all economic cycles. In February 2008, the Board of Directors increased the quarterly dividend payout from 21.5 cents to 22.5 cents per share, effective with the June 2008 payment.

Liquidity

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash to meet its cash requirements. Several general factors that could significantly affect liquidity in future years include inflation, growth in Southwest’s service territories, changes in the ratemaking policies of regulatory commissions, interest rates, variability of natural gas prices, ability to access the capital markets, changes in income tax laws, and the level of Company earnings. Of these factors natural gas prices and related gas cost recovery rates have historically had the most significant impact on Company liquidity.

The rate schedules in Southwest's service territories contain PGA clauses which permit adjustments to rates as the cost of purchased gas changes. The PGA mechanism allows Southwest to request to change the gas cost component of the

rates charged to its customers to reflect increases or decreases in the price expected to be paid to its suppliers and companies providing interstate pipeline transportation service.

19

On an interim basis, Southwest generally defers over- or under-collections of gas costs to PGA balancing accounts. In addition, Southwest uses this mechanism to either refund amounts over-collected or recoup amounts under-collected as compared to the price paid for natural gas during the period since the last PGA rate change went into effect. At September 30, 2008, the balances in PGA accounts totaled an over-collection of $33.7 million versus an over-collection of $16.1 million at September 30, 2007. Southwest anticipates remaining in an over-collected position on a total Company basis through year end.

To balance daily working capital needs, including temporarily financing natural gas purchases, Southwest has the ability to draw on its $300 million credit facility. Southwest has designated $150 million of the facility as long-term debt and the remaining $150 million for working capital purposes. Southwest currently believes the $150 million designated for working capital purposes is adequate to meet liquidity needs. At September 30, 2008, $101 million was outstanding on the long-term portion and no borrowings were outstanding on the short-term portion of the credit facility. The credit facility is supported by eight major banking institutions and matures in May 2012.

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

	For the Twelve Months Ended	
	September 30, 2008	December 31, 2007
Ratio of earnings to fixed charges	2.14	2.25

Earnings are defined as the sum of pretax income plus fixed charges. Fixed charges consist of all interest expense including capitalized interest, one-third of rent expense (which approximates the interest component of such expense), and amortized debt costs.

IDRB Supporting Credit Arrangements

In September 2008, the Company issued $50 million in Clark County, Nevada variable-rate 2008 Series A Industrial Development Revenue Bonds ("IDRBs"), due 2038. The 2008 Series A IDRBs are supported by a letter of credit with JPMorgan Chase Bank. The proceeds from the 2008 Series A IDRBs were used by the Company to redeem its $50 million 2003 Series B variable-rate IDRBs. From 2003 through September 2008, the Company had utilized an insurance policy from Ambac Assurance Corporation ("Ambac") to support its $50 million 2003 Series B variable-rate IDRBs. The 2003 Series B were designed to be repriced weekly in an auction market. Since mid-February 2008, the 2003 Series B weekly auctions had failed amid the uncertainty surrounding bond insurers. In June 2008, Standard & Poor's and Moody's Investors Service, the two largest ratings companies, downgraded Ambac and assigned a "negative" outlook to the new rating. This resulted in the Company's 2003 Series B being downgraded from a AAA rating to a AA rating. As a result of the failed auctions and the ratings downgrade, the Company had been required to price the 2003 Series B at a predetermined maximum auction-rate (200 percent of the one-month LIBOR rate at the time of redemption).

Forward-Looking Statements

This quarterly report contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("Reform Act"). All statements other than statements of historical fact included or incorporated by reference in this quarterly report are forward-looking statements, including, without limitation, statements regarding the Company's plans, objectives, goals, projections, strategies, future events or performance, and underlying assumptions. The words "may," "will," "should," "could," "expect," "plan," "anticipate," " "estimate," "predict," "continue," and similar words and expressions are generally used and intended to identify forward-looking statements. For example, statements regarding operating margin earned, customer growth, the composition of our customer base, the anticipated efficiencies from the use of electronic meter reading technology, risks and costs associated with having non-performing assets associated with new homes, timing of improvements in the housing market, timing for completion of estimated future construction expenditures, forecasted operating cash flows, funding sources of

20

cash requirements, sufficiency of working capital, ability to raise funds and receive external financing, the amount and form of any such financing, liquidity and statements regarding estimated bonus depreciation deductions, equity issuances related to our ESP and construction expenditures, the recovery of under recovered PGA balances, the impact of the application of certain accounting standards, certain tax benefits from the Economic Stimulus Act of 2008, the impact of certain legal proceedings, and the timing and results of future rate hearings and approvals are forward-looking statements. All forward-looking statements are intended to be subject to the safe harbor protection provided by the Reform Act.

A number of important factors affecting the business and financial results of the Company could cause actual results to differ materially from those stated in the forward-looking statements. These factors include, but are not limited to, the impact of weather variations on customer usage, customer growth rates, conditions in the housing market, the effects of a possible U.S. economic recession, interest rates, our ability to recover costs through our PGA mechanisms, the effects of regulation/deregulation, the timing and amount of rate relief, changes in rate design, changes in gas procurement practices, changes in capital requirements and funding, the impact of conditions in the capital markets on the availability of financing and financing costs, the impact of stock market volatility, rating agency actions, changes in construction expenditures and financing, renewal of franchises, easements and rights-of-way, changes in operations and maintenance expenses, effects of accounting changes, future liability claims, changes in pipeline capacity for the transportation of gas and related costs, acquisitions and management's plans related thereto, competition, and our ability to raise capital in external financings. In addition, the Company can provide no assurance that its discussions regarding certain trends relating to its financing, operations and maintenance expenses will continue in future periods. For additional information on the risks associated with the Company's business, see Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

All forward-looking statements in this quarterly report are made as of the date hereof, based on information available to the Company as of the date hereof, and the Company assumes no obligation to update or revise any of its forward-looking statements even if experience or future changes show that the indicated results or events will not be realized. We caution you not to unduly rely on any forward-looking statement(s).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Item 7A. Quantitative and Qualitative Disclosures about Market Risk in the Company's 2007 Annual Report on Form 10-K filed with the SEC. No material changes have occurred related to the Company's disclosures about market risk.

ITEM 4. CONTROLS AND PROCEDURES

The Company has established disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and benefits of controls must be considered relative to their costs. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more

people, or management override of the control. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Based on the most recent evaluation, as of September 30, 2008, management of the Company, including the Chief Executive Officer and Chief Financial Officer, believe the Company's disclosure controls and procedures are effective at attaining the level of reasonable assurance noted above.

There have been no changes in the Company's internal controls over financial reporting during the third quarter of 2008 that have materially affected, or are likely to materially affect, the Company's internal controls over financial reporting. Southwest implemented a new asset management accounting system related to its property, plant, and equipment records during the fourth quarter of 2008. Testing of the internal controls surrounding the system implementation process has been conducted by management. Operating effectiveness of related key controls will be evaluated in the fourth quarter of 2008.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is named as a defendant in various legal proceedings. The ultimate dispositions of these proceedings are not presently determinable; however, it is the opinion of management that none of this litigation individually or in the aggregate will have a material adverse impact on the Company's financial position or results of operations.

ITEMS 1A. through 5. None.

ITEM 6. EXHIBITS

The following documents are filed as part of this report on Form 10-Q:

Exhibit 3(ii).01	-	Amended Bylaws of Southwest Gas Corporation.
Exhibit 3(ii).02	-	Amended Bylaws of Southwest Gas Corporation.
Exhibit 10.01	-	IDRB Series 2003 Clark County Indenture.
Exhibit 10.02	-	IDRB Series 2008 Clark County Indenture.
Exhibit 10.03	-	IDRB Series 2008 Clark County Financing Agreement.
Exhibit 12.01	-	Computation of Ratios of Earnings to Fixed Charges.
Exhibit 31.01	-	Section 302 Certifications.
Exhibit 32.01	-	Section 906 Certifications.

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.

Southwest Gas Corporation
(Registrant)

Date: November 6, 2008

/s/ Roy R. Centrella
Roy R. Centrella
Vice President/Controller and Chief Accounting Officer