

SOUTHWESTERN ENERGY CO  
Form 10-Q  
October 30, 2008

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

**Form 10-Q**

(Mark One)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities

Exchange Act of 1934

For the quarterly period ended **September 30, 2008**

Or

Transition Report pursuant to Section 13 or 15(d) of the Securities

Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **1-08246**

**Southwestern Energy Company**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**71-0205415**

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

**2350 North Sam Houston Parkway East, Suite  
125, Houston, Texas**

(Address of principal executive offices)

**77032**

(Zip Code)

**(281) 618-4700**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding as of October 24, 2008
Common Stock, Par Value \$0.01	343,327,466

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**CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS**

All statements, other than historical fact or present financial information, may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements that address activities, outcomes and other matters that should or may occur in the future, including, without limitation, statements regarding the financial position, business strategy, production and reserve growth and other plans and objectives for our future operations, are forward-looking statements. Although we believe the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance. We have no obligation and make no undertaking to publicly update or revise any forward-looking statements, except as may be required by law.

Forward-looking statements include the items identified in the preceding paragraph, information concerning possible or assumed future results of operations and other statements in this Form 10-Q identified by words such as anticipate, project, intend, estimate, expect, believe, predict, budget, projection, goal, plan, forecast, target

You should not place undue reliance on forward-looking statements. They are subject to known and unknown risks, uncertainties and other factors that may affect our operations, markets, products, services and prices and cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with forward-looking statements, risks, uncertainties and factors that could cause our actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

.  
the timing and extent of changes in market conditions and prices for natural gas and oil (including regional basis differentials);

.  
our ability to transport our production to the most favorable markets or at all;

.  
the timing and extent of our success in discovering, developing, producing and estimating reserves;

.  
the economic viability of, and our success in drilling, our large acreage position in the Fayetteville Shale play overall as well as relative to other productive shale gas plays;

.  
our ability to fund our planned capital investments;

.  
our ability to determine the most effective and economic fracture stimulation for the Fayetteville Shale formation;

.  
the impact of federal, state and local government regulation, including any increase in severance taxes;

.  
the costs and availability of oilfield personnel services and drilling supplies, raw materials, and equipment and services, including pressure pumping equipment and crews in the Arkoma basin;

.  
our future property acquisition or divestiture activities;

.  
the effects of weather;

.  
increased competition;

.  
the financial impact of accounting regulations and critical accounting policies;

.  
the comparative cost of alternative fuels;

.  
conditions in capital markets, changes in interest rates and the ability of our lenders to provide us with funds as agreed;

.  
credit risk relating to the risk of loss as a result of non-performance by our counterparties, and;

.  
any other factors listed in the reports we have filed and may file with the Securities and Exchange Commission ( SEC ).

We caution you that the forward-looking statements contained in this Form 10-Q are subject to all of the risks and uncertainties, many of which are beyond our control, incident to the exploration for and development, production and sale of natural gas and oil. These risks include, but are not limited to, commodity price volatility, third-party interruption of sales to market, inflation, lack of availability of goods and services, environmental risks, drilling and other operating risks, regulatory changes, the uncertainty inherent in estimating proved natural gas and oil reserves and in projecting future rates of production and timing of development expenditures and the other risks described in our Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 Annual Report on Form 10-K ), and all quarterly reports on Form 10-Q filed subsequently thereto, including this Form 10-Q ( Form 10-Qs ).

Should one or more of the risks or uncertainties described above or elsewhere in this Form 10-Q occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements. We specifically disclaim all responsibility to publicly update any information contained in a forward-looking statement or any forward-looking statement in its entirety and therefore disclaim any resulting liability for potentially related damages.

All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement.

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## PART I

### FINANCIAL INFORMATION

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#### SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES STATEMENTS OF OPERATIONS (Unaudited)

For the three months ended		For the nine months ended	
September 30,		September 30,	
2008	2007	2008	2007

(in thousands, except share/per share amounts)

#### Operating Revenues:

Gas sales	\$ 431,019	\$ 201,095	\$ 1,160,569	\$ 596,798
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Gas marketing	229,568	81,361	574,866	208,916
Oil sales	9,565	10,113	38,816	29,566
Gas gathering	12,662	3,438	30,134	6,281
Transportation and other	185	1,615	7,090	10,795
	682,999	297,622	1,811,475	852,356
<b>Operating Costs and Expenses:</b>				
Gas purchases midstream services	225,149	78,588	560,490	201,293
Gas purchases gas distribution		2,063	61,439	57,471
Operating expenses	23,877	21,562	77,903	62,084
General and administrative expenses	21,055	20,099	70,536	54,782
Depreciation, depletion and amortization	105,230	81,426	300,478	203,646
Taxes, other than income taxes	8,648	4,431	24,793	17,862
	383,959	208,169	1,095,639	597,138
<b>Operating Income</b>	<b>299,040</b>	<b>89,453</b>	<b>715,836</b>	<b>255,218</b>
<b>Interest Expense:</b>				
Interest on long-term debt	14,205	10,695	46,950	22,204
Other interest charges	482	173	1,749	1,099
Interest capitalized	(8,109)	(3,604)	(21,595)	(9,575)
	6,578	7,264	27,104	13,728
<b>Other Income (Loss)</b>	<b>2,354</b>	<b>83</b>	<b>2,530</b>	<b>(21)</b>
<b>Gain on Sale of Utility Assets</b>	<b>57,264</b>		<b>57,264</b>	
<b>Income Before Income Taxes and Minority Interest</b>				
	352,080	82,272	748,526	241,469
<b>Minority Interest in Partnership</b>	<b>(197)</b>	<b>(79)</b>	<b>(547)</b>	<b>(273)</b>
<b>Income Before Income Taxes</b>				
	351,883	82,193	747,979	241,196
<b>Provision for Income Taxes:</b>				
Current	61,000		107,500	
Deferred	72,715	31,233	176,732	91,654
	133,715	31,233	284,232	91,654

<b>Net Income</b>	\$ 218,168	\$ 50,960	\$ 463,747	\$ 149,542
<b>Earnings Per Share:</b>				
Basic	\$ 0.64	\$ 0.15 (1)	\$ 1.36	\$ 0.44 (1)
Diluted	\$ 0.63	\$ 0.15 (1)	\$ 1.34	\$ 0.43 (1)
<b>Weighted Average Common Shares Outstanding:</b>				
Basic	342,312,845	339,591,040 (1)	341,595,957	338,584,608 (1)
Diluted	346,712,565	345,088,224 (1)	346,459,853	344,726,838 (1)

(1) Restated to reflect the two-for-one stock split effected on March 25, 2008.

The accompanying notes are an integral part of these consolidated financial statements.

**SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES**  
**BALANCE SHEETS**  
(Unaudited)

**ASSETS**

September 30,  
2008

December 31,  
2007

(in thousands)

**Current Assets**

Cash and cash equivalents	\$ 426,188	\$ 727
Accounts receivable	254,129	177,680
Inventories, at average cost	48,364	33,034
Hedging asset FAS 133	136,286	64,472
Current assets held for sale (see Note 4)		58,877
Other	24,650	28,551

Total current assets	889,617	363,341
<b>Property, Plant and Equipment, at cost</b>		
Gas and oil properties, using the full cost method, including \$498.1 million in 2008 and \$372.4 million in 2007 excluded from amortization	4,426,177	4,020,448
Gathering systems	291,512	158,604
Gas in underground storage	13,349	13,349
Other	113,052	85,983
	4,844,090	4,278,384
Less: Accumulated depreciation, depletion and amortization	1,499,632	1,200,754
	3,344,458	3,077,630
<b>Assets Held For Sale</b> (see Note 4)		143,234
<b>Other Assets</b>	129,931	38,511
<b>Total Assets</b>	\$ 4,364,006	\$ 3,622,716

The accompanying notes are an integral part of these consolidated financial statements.

**SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES**  
**BALANCE SHEETS**  
(Unaudited)

**LIABILITIES AND STOCKHOLDERS EQUITY**

September 30,  
2008

December 31,  
2007



(in thousands)

**Current Liabilities**

Short-term debt	\$	61,200	\$	1,200
Accounts payable		440,526		313,070
Taxes payable		78,930		5,087
Interest payable		12,119		2,213
Advances from partners		56,617		32,005
Hedging liability FAS 133		27,596		8,598
Current deferred income taxes		47,902		20,909
Current liabilities associated with assets held for sale (see Note 4)				39,118
Other		7,955		8,695
<b>Total current liabilities</b>		<b>732,845</b>		<b>430,895</b>

**Long-Term Debt**

		674,800		977,600
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**Other Liabilities**

Deferred income taxes		635,604		479,196
Long-term hedging liability		49,467		15,186
Pension liability		5,546		12,268
Liabilities associated with assets held for sale (see Note 4)				15,417
Other		34,384		35,084
		725,001		557,151

**Commitments and Contingencies****Minority Interest in Partnership**

		10,608		10,570
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**Stockholders Equity**

Common stock, \$0.01 par value; authorized 540,000,000 shares, issued 343,182,556 shares in 2008 and 341,581,672 in 2007 <sup>(1)</sup>		3,432		3,416
Additional paid-in capital <sup>(1)</sup>		807,019		752,369
Retained earnings		1,345,778		882,031
Accumulated other comprehensive income		69,255		13,348
Common stock in treasury, 224,807 shares in 2008 and 222,774 in 2007 <sup>(1)</sup>		(4,732)		(4,664)
		2,220,752		1,646,500
<b>Total Liabilities and Stockholders Equity</b>	\$	<b>4,364,006</b>	\$	<b>3,622,716</b>

(1) 2007 restated to reflect the two-for-one stock split effected on March 25, 2008.

The accompanying notes are an integral part of these consolidated financial statements.

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**SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES**  
**STATEMENTS OF CASH FLOWS**  
(Unaudited)

	For the nine months ended	
	September 30,	
	2008	2007
	(in thousands)	
<b>Cash Flows From Operating Activities</b>		
Net Income	\$ 463,747	\$ 149,542
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	301,801	204,662
Deferred income taxes	176,732	91,654
Gain on sale of utility assets	(57,264)	
Unrealized gain on derivatives	(5,956)	(2,669)
Stock-based compensation expense	5,379	3,839
Gain on sale of property, plant and equipment	(392)	
Minority interest in partnership	39	(122)
Change in assets and liabilities:		
Accounts receivable	(59,690)	(4,683)
Inventories	(32,397)	(12,756)
Accounts payable	115,184	21,513
Taxes payable	67,834	(3,797)
Interest payable	9,784	3,055
Advances from partners and customer deposits	24,432	5,501
Deferred tax benefit stock options	(42,197)	(17,858)
Other assets and liabilities	(329)	(2,863)

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Net cash provided by operating activities	966,707	435,018
<b>Cash Flows From Investing Activities</b>		
Capital investments	(1,287,324)	(1,139,946)
Proceeds from sale of property, plant and equipment	732,924	5,777
Net proceeds from sale of utility assets	213,721	
Other items	(816)	383
Net cash used in investing activities	(341,495)	(1,133,786)
<b>Cash Flows From Financing Activities</b>		
Debt retirement	(600)	(600)
Payments on revolving long-term debt	(1,843,600)	(628,050)
Borrowings under revolving long-term debt	1,001,400	1,222,350
Proceeds from issuance of long-term debt	600,000	
Debt issuance costs and revolving credit facility costs	(8,895)	(1,275)
Excess tax benefit for stock-based compensation	42,197	17,858
Change in bank drafts outstanding	5,402	42,013
Proceeds from exercise of common stock options	3,240	4,160
Net cash provided by (used in) financing activities	(200,856)	656,456
Increase (decrease) in cash and cash equivalents	424,356	(42,312)
Cash and cash equivalents at beginning of year	1,832 <sup>(1)</sup>	42,927
Cash and cash equivalents at end of period	\$ 426,188	\$ 615

(1) Cash and cash equivalents for 2008 at the beginning of the year includes amounts classified as held for sale. See Note 4 for additional information.

The accompanying notes are an integral part of these consolidated financial statements.

**SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)**  
(Unaudited)

	Common Stock <sup>(1)</sup>		Additional Paid-In Capital <sup>(1)</sup>	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock in Treasury	Total
	Shares Issued	Amount					
Balance at December 31, 2007	341,578	\$ 3,416	\$ 752,369	\$ 882,031	\$ 13,348	\$ \$ 1,466,500	(1,466,500)
Comprehensive income:							
Net income				463,747			463,747
Change in value of derivatives					50,338		50,338
Change in value of pension and other postretirement liabilities					5,569		5,569
Total comprehensive income (loss)							519,654
Tax benefit for stock-based compensation			42,197				42,197
Stock-based compensation FAS 123(R)			9,147				9,147
Exercise of stock options	1,557	16	3,224				3,240
Issuance of restricted stock	106	1	(1)				
Cancellation of restricted stock	(62)	(1)	1				
Issuance of stock awards	4		82				82
							(68,668)

Treasury stock  
non-qualified  
plan

