SOUTHWESTERN ENERGY CO
Form 10-Q
April 28, 2009

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

Form 10-Q

(Mark One)

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

Exchange Act of 1934

For the quarterly period ended **March 31, 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: **1-08246**

Southwestern Energy Company
(Exact name of registrant as specified in its charter)

Delaware	**71-0205415**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2350 North Sam Houston Parkway East, Suite 125, Houston, Texas	**77032**
(Address of principal executive offices)	(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.
Yesx Noo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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 x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

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

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 April 24, 2009
Common Stock, Par Value $0.01	343,636,807

(including associated stock purchase rights)

SOUTHWESTERN ENERGY COMPANY

INDEX TO FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009

PART I FINANCIAL INFORMATION

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, targ

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, 2008 (the 2008 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.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended March 31, 2009	For the three months ended March 31, 2008
	(in thousands, except share/per share amounts)	
Operating Revenues:		
Gas sales	$ 369,429	$ 360,671
Gas marketing	154,801	137,227
Oil sales	1,182	13,713
Gas gathering	16,563	8,286
Other	(1,158)	4,209
	540,817	524,106
Operating Costs and Expenses:		
Gas purchases midstream services	149,180	132,452
Gas purchases gas distribution		51,895
Operating expenses	27,172	23,996
General and administrative expenses	23,709	23,740
Depreciation, depletion and amortization	124,228	97,097
Impairment of natural gas and oil properties	907,812	
Taxes, other than income taxes	9,208	7,416
	1,241,309	336,596
Operating Income (Loss)	(700,492)	187,510
Interest Expense:		
Interest on debt	14,185	17,086
Other interest charges	659	648
Interest capitalized	(11,160)	(6,205)
	3,684	11,529
Other Income	365	7
Income (Loss) Before Income Taxes	(703,811)	175,988
Provision (Benefit) for Income Taxes:		
Current	(35,500)	
Deferred	(235,459)	66,824
	(270,959)	66,824
Net income (loss)	(432,852)	109,164
Less: net income (loss) attributable to noncontrolling interest	(22)	135
Net Income (Loss) Attributable to Southwestern Energy	$ (432,830)	$ 109,029

Earnings Per Share:				
Net income (loss) attributable to Southwestern Energy stockholders - Basic	$	(1.26)	$	0.32
Net income (loss) attributable to Southwestern Energy stockholders - Diluted	$	(1.26)	$	0.31
Weighted Average Common Shares Outstanding:				
Basic		342,570,995		341,064,247
Diluted		342,570,995		348,196,507

See the accompanying notes which are an integral part of these

unaudited condensed consolidated financial statements.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

		March 31, 2009		December 31, 2008
ASSETS		(in thousands)		
Current Assets:				
Cash and cash equivalents	$	82,322	$	196,277
Accounts receivable		209,834		254,557
Inventories		35,345		50,377
Hedging asset		456,611		343,320
Other		69,080		44,734
Total current assets		853,192		889,265
Property and Equipment:				
Gas and oil properties (using the full cost method), including costs excluded from amortization of $605.5 million in 2009 and $540.6 million in 2008		5,287,126		4,836,077

Gathering systems		392,405		341,474
Gas in underground storage		13,349		13,349
Other		147,804		138,014
Total property and equipment		5,840,684		5,328,914
Less: Accumulated depreciation, depletion and amortization		2,648,330		1,615,307
Property and equipment, net		3,192,354		3,713,607
Other Assets		183,030		157,286
TOTAL ASSETS	$	4,228,576	$	4,760,158
LIABILITIES AND EQUITY				
Current Liabilities:				
Short-term debt	$	61,200	$	61,200
Accounts payable		457,534		464,145
Taxes payable		20,000		31,951
Interest payable		11,657		20,857
Advances from partners		104,082		70,603
Hedging liability		4,248		10,899
Current deferred income taxes		172,632		122,448
Other		12,682		10,758
Total current liabilities		844,035		792,861
Long-Term Debt		674,200		674,200
Other Liabilities:				
Deferred income taxes		489,885		721,707
Long-term hedging liability		2,854		5,934
Pension and other postretirement liabilities		14,944		15,436
Other long-term liabilities		28,334		32,057
		536,017		775,134
Commitments and Contingencies				
Equity:				
Southwestern Energy stockholders equity				
Common stock, $0.01 par value; authorized 540,000,000 shares, issued 343,633,507 shares in 2009 and 343,624,956 in 2008		3,436		3,436
Additional paid-in capital		815,362		811,492
Retained earnings		1,017,147		1,449,977
Accumulated other comprehensive income		332,551		247,665
Common stock in treasury, 202,624 shares in 2009 and 225,050 in 2008		(4,283)		(4,740)

Total Southwestern Energy stockholders equity		2,164,213		2,507,830
Noncontrolling interest		10,111		10,133
Total equity		2,174,324		2,517,963
TOTAL LIABILITIES AND EQUITY	$	4,228,576	$	4,760,158

See the accompanying notes which are an integral part of these

unaudited condensed consolidated financial statements.

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

	For the three months ended March 31,			
		2009		2008
	(in thousands)			
Cash Flows From Operating Activities				
Net Income (loss)	$	(432,852)	$	109,164
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion and amortization		124,647		97,635
Impairment of natural gas and oil properties		907,812		
Deferred income taxes		(235,459)		66,824
Impairment of natural gas inventory		4,283		
Unrealized loss on derivatives		1,849		7,636
Stock-based compensation expense		2,275		2,458
Change in assets and liabilities:				
Accounts receivable		44,723		(39,007)
Inventories		(2,099)		21,218
Accounts payable		7,226		13,156
Taxes payable		(11,952)		3,181
Interest payable		(9,200)		11,441
Advances from partners and customer deposits		33,479		1,193

Other assets and liabilities		(27,437)		2,188
Net cash provided by operating activities		407,295		297,087
Cash Flows From Investing Activities				
Capital investments		(480,483)		(391,029)
Other		(4,370)		462
Net cash used in investing activities		(484,853)		(390,567)
Cash Flows From Financing Activities				
Payments on revolving long-term debt				(927,400)
Borrowings under revolving long-term debt				426,400
Proceeds from issuance of long-term debt				600,000
Debt issuance costs and revolving credit facility costs				(8,883)
Change in bank drafts outstanding		(36,400)		2,919
Proceeds from exercise of common stock options		3		818
Net cash provided by (used in) financing activities		(36,397)		93,854
Increase (decrease) in cash and cash equivalents		(113,955)		374
Cash and cash equivalents at beginning of year [1]		196,277		1,832
Cash and cash equivalents at end of period [1]	$	82,322	$	2,206

(1) Cash and cash equivalents at the beginning of the year for 2008 and at March 31, 2008 include $1.1 million and $1.7 million, respectively, classified as held for sale. See Note 4 for additional information.

See the accompanying notes which are an integral part of these

unaudited condensed consolidated financial statements.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

	Southwestern Energy Stockholders							
	Common Stock		Additional		Accumulated Other	Common		
	Shares Issued	Amount	Paid-In Capital	Retained Earnings	Comprehensive Income	Stock in Treasury	Noncontrolling Interest	Tota
				(in thousands)				
Balance at December 31, 2008	343,625	$ 3,436	$811,492	$1,449,977	$ 247,665	$ (4,740)	$ 10,133	$ 2,517,
Comprehensive income (loss):								
Net loss				(432,830)			(22)	(432,
Change in value of derivatives					84,690			84,
Change in value of pension and other postretirement liabilities					196			
Total comprehensive loss							(22)	(347,
Stock-based compensation			3,663					3,
Exercise of stock options	2		3					
Issuance of restricted stock	9							
Cancellation of restricted stock	(2)							
Treasury stock non-qualified plan			204			457		
Balance at March 31, 2009	343,634	$ 3,436	$815,362	$1,017,147	$ 332,551	$ (4,283)	$ 10,111	$ 2,174,

See the accompanying notes which are an integral part of these

unaudited condensed consolidated financial statements.

6

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	For the three months ended March 31, 2009	For the three months ended March 31, 2008
	(in thousands)	(in thousands)
Net income (loss)	$ (432,852)	$ 109,164
Change in value of derivatives:		
Current period reclassification to earnings, net of ($53.6) and ($7.2) million in taxes	(84,553)	(11,712)
Current period ineffectiveness, net of ($0.5) and $5.2 million in taxes	(719)	8,459
Current period change in derivative instruments, net of $107.8 and ($115.8) million in taxes	169,962	(188,882)
Total change in value of derivatives	84,690	(192,135)
Current period change in value of pension and other postretirement liabilities, net of $0.1 and $0.1 million in taxes	196	209
Comprehensive income (loss)	(347,966)	(82,762)
Less: comprehensive income (loss) attributable to the noncontrolling interest	(22)	135
Comprehensive income (loss) attributable to Southwestern Energy	$ (347,944)	$ (82,897)

See the accompanying notes which are an integral part of these

unaudited condensed consolidated financial statements.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1)

BASIS OF PRESENTATION

Southwestern Energy Company (including its subsidiaries, collectively, the Company, Southwestern, we, us, its our) is an independent energy company primarily focused on the exploration and production of natural gas. The Company engages in natural gas and oil exploration and production and natural gas gathering and marketing through its subsidiaries. Southwestern s exploration and production (E&P) activities are currently concentrated in Arkansas, Oklahoma, Pennsylvania and Texas. Southwestern s marketing and gas gathering business (Midstream Services) is concentrated in the core areas of its E&P operations.

The accompanying unaudited condensed consolidated financial statements were prepared using accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the rules and regulations of the SEC. Certain information relating to the Company s organization and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been appropriately condensed or omitted in this Quarterly Report on Form 10-Q. The Company believes that the disclosures made are adequate to make the information presented not misleading.

The unaudited condensed consolidated financial statements contained in this report include all normal and recurring material adjustments that, in the opinion of management, are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented herein. It is recommended that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 (2008 Annual Report on Form 10-K).

The Company s significant accounting policies, which have been reviewed and approved by the audit committee of the Company s Board of Directors, are summarized in Note 1 of the Company s 2008 Annual Report on Form 10-K.

On January 1, 2009, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for (1) ownership interests in subsidiaries held by others, (2) the amount of consolidated net income attributable to the controlling and noncontrolling interests, (3) changes in the controlling ownership interest, (4) the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated and (5) disclosures that clearly identify and distinguish between the interests of the controlling and noncontrolling owners. The adoption of SFAS 160 resulted in changes to our presentation for noncontrolling interests and did not have a material impact on the Company s results of operations and financial condition.

The Company adopted SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133 (SFAS 161), on January 1, 2009. SFAS 161 requires enhanced disclosure about (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133) and (3) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The adoption of SFAS 161 did not have a material impact on the Company s results of operations and financial condition.

On January 1, 2009, the Company adopted Financial Accounting Standards Board (FASB) Staff Position FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2). FSP FAS 157-2 delayed the effective date of SFAS No. 157, Fair Value Measurements, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of FSP FAS 157-2 did not have a material impact on the Company s results of operations and financial condition.

Certain reclassifications have been made to the prior year s financial statements to conform to the 2009 presentation. The effects of the reclassifications were not material to the Company s consolidated financial statements.

(2)

GAS AND OIL PROPERTIES

The Company utilizes the full cost method of accounting for costs related to the exploration, development, and acquisition of natural gas and oil reserves. Under this method, all such costs (productive and nonproductive), including salaries, benefits and other internal costs directly attributable to these activities are capitalized and amortized on an aggregate basis over the estimated lives of the properties using the units-of-production method. These capitalized costs, less accumulated amortization and related deferred income taxes, are subject to a ceiling test that limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved natural gas and oil reserves discounted at 10 percent (standardized measure) plus the lower of cost or market value of unproved properties. Any costs in excess of the ceiling are written off as a non-cash expense. The expense may not be reversed in future periods, even though higher natural gas and oil prices may subsequently increase the ceiling. Full cost companies must use the prices in effect at the end of each accounting quarter, including the impact of derivatives qualifying as hedges, to calculate the ceiling value of their reserves. However, commodity price increases subsequent to the end of a reporting period but prior to the release of a periodic report may be utilized to calculate the ceiling value of reserves.

At March 31, 2009, the ceiling value of the Company s reserves was calculated based upon quoted market prices of $3.63 per MMBtu for Henry Hub natural gas and $46.00 per barrel for West Texas Intermediate oil, adjusted for market differentials. Using these prices, the net capitalized costs of our gas and oil properties exceeded the ceiling by approximately $558.3 million (net of tax) at March 31, 2009 and resulted in a non-cash ceiling test impairment. Cash flow hedges of gas production in place at March 31, 2009 increased the calculated ceiling value by approximately $450.6 million (net of tax). Decreases in market prices from March 31, 2009 levels as well as changes in production rates, levels of reserves, the evaluation of costs excluded from amortization, future development costs and service costs could result in future ceiling test impairments.

(3)

EARNINGS PER SHARE

The following table presents the computation of earnings per share for the three months ended March 31, 2009 and 2008, respectively.

	For the three months ended March 31, 2009	For the three months ended March 31, 2008
Net income (loss) attributable to Southwestern Energy (in thousands)	$ (432,830)	$ 109,029
Number of common shares:		
Weighted average outstanding	342,570,995	341,064,247
Issued upon assumed exercise of outstanding stock options		6,797,795
Effect of issuance of nonvested restricted common stock		334,465
Weighted average and potential dilutive outstanding[(1)]	342,570,995	348,196,507
Earnings per share:		

Net income (loss) attributable to Southwestern Energy stockholders - basic	$	(1.26)	$	0.32
Net income (loss) attributable to Southwestern Energy stockholders - diluted	$	(1.26)	$	0.31

(1)

Due to the net loss for the three months ended March 31, 2009, options for 6,475,824 shares and 306,614 shares of restricted stock were antidilutive and excluded from the calculation. Options for 396,840 shares and 1,613 shares of restricted stock were excluded from the calculation for the three months ended March 31, 2008 because they would have had an antidilutive effect.

(4)

DIVESTITURES

In November 2007, the Company entered into an agreement to sell all of the capital stock of its wholly-owned subsidiary, Arkansas Western Gas Company (AWG), for $224 million plus working capital. On July 1, 2008, the transaction was closed and the Company received $223.5 million (net of expenses related to the sale). In order to receive regulatory approval for the sale and certain related transactions, the Company paid $9.8 million to AWG for the benefit of its customers. The operating results and cash flows from AWG for the three months ended March 31, 2008 are included in the unaudited condensed consolidated statements of operations and statements of cash flows for the three months ended March 31, 2008. As a result of completion of the sale of AWG, the Company is no longer engaged in any natural gas distribution operations.

In the second quarter of 2008, the Company sold certain natural gas and oil leases, wells and gathering equipment in its Fayetteville Shale play for $518.3 million. Additionally, in the second and third quarters of 2008 the Company sold various natural gas and oil properties in the Gulf Coast and Permian Basin for approximately $240 million in the aggregate. All proceeds from the sales of natural gas and oil properties were credited to the full cost pool. The operating results and cash flows from the divested properties for the three months ended March 31, 2008 are included in the unaudited condensed consolidated statements of operations and statements of cash flows for the three months ended March 31, 2008.

(5)

DEBT

The components of debt as of March 31, 2009 and December 31, 2008 consisted of the following:

		March 31, 2009		December 31, 2008
		(in thousands)		
Short-term debt:				
7.625% Senior Notes due 2027, putable at the holders option in 2009	$	60,000	$	60,000
7.15% Senior Notes due 2018		1,200		1,200
Total short-term debt		61,200		61,200
Long-term debt:				
7.5% Senior Notes due 2018		600,000		600,000
7.21% Senior Notes due 2017		40,000		40,000
7.15% Senior Notes due 2018		34,200		34,200
Total long-term debt		674,200		674,200
Total debt	$	735,400	$	735,400

The Company has an unsecured revolving credit facility which expires in February 2012 (Credit Facility). The Credit Facility has a borrowing capacity of $1.0 billion which may be increased to $1.25 billion at any time upon the Company s agreement with its existing or additional lenders. As of March 31, 2009, the Company had no borrowings outstanding under the Credit Facility.

The Credit Facility is currently guaranteed by the Company s subsidiaries, SEECO, Inc. (SEECO), Southwestern Energy Production Company (SEPCO) and Southwestern Energy Services Company (SES) and requires additional subsidiary guarantors if certain guaranty coverage levels are not satisfied. In addition to the subsidiary guarantees, the Credit Facility restricts the ability of the Company s subsidiaries to incur debt and contains covenants which impose certain restrictions on the Company. Under the terms of the Credit Facility, the Company may not issue total debt in excess of 60% of its total capital, must maintain a certain level of equity, and must maintain a ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to interest expense of 3.5 or above. At March 31, 2009 the Company s capital structure consisted of 25% debt and 75% equity and the Company is in compliance with the covenants of its debt agreements.

The Company s 7.625% Senior Notes due 2027 are putable by the note holders on May 1, 2009, and as a result, the $60 million principal balance of these notes has been reclassified to short-term debt. Subsequent to March 31, 2009, substantially all of the 7.625% Senior Notes were put to the Company by the holders and consequently the Company will pay approximately $62.1 million in principal and accrued interest on May 1, 2009.

(6)

CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Company is providing unaudited condensed consolidating financial information for SEECO, SEPCO and SES, its subsidiaries that are guarantors of the Company s registered public debt, and for its other subsidiaries that are not guarantors of such debt. These wholly owned subsidiary guarantors have jointly and severally, fully and unconditionally guaranteed the Company s 7.625% Senior Notes and 7.21% Senior Notes. The subsidiary guarantees (i) rank equally in right of payment with all of the existing and future senior debt of the subsidiary guarantors; (ii) rank senior to all of the existing and future subordinated debt of the subsidiary guarantors; (iii) are effectively subordinated to any future

secured obligations of the subsidiary guarantors to the extent of the value of the assets securing such obligations; and (iv) are structurally subordinated to all debt and other obligations of the subsidiaries of the guarantors.

The Company has not presented separate financial and narrative information for each of the subsidiary guarantors because it believes that such financial and narrative information would not provide any additional information that would be material in evaluating the sufficiency of the guarantees. The following unaudited condensed consolidating financial information summarizes the results of operations, financial position and cash flows for the Company s guarantor and non-guarantor subsidiaries.

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(Unaudited)

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
			(in thousands)		
Three months ended March 31, 2009:					

Operating revenues	$	$ 524,829	$ 43,053	$ (27,065)	$ 540,817
Operating costs and expenses:					
Gas purchases		149,246		(66)	149,180
Operating expenses		40,880	13,179	(26,887)	27,172
General and administrative expenses		20,820	3,001	(112)	23,709
Depreciation, depletion and amortization		119,786	4,442		124,228
Impairment of natural gas and oil properties		907,812			907,812
Taxes, other than income taxes		8,450	758		9,208
Total operating costs and expenses		1,246,994	21,380	(27,065)	1,241,309
Operating income (loss)		(722,165)	21,673		(700,492)
Other income (loss)		361	4		365
Equity in earnings of subsidiaries	(432,830)			432,830	
Interest expense		2,949	735		3,684
Income (loss) before income taxes	(432,830)	(724,753)	20,942	432,830	(703,811)
Provision (benefit) for income taxes		(279,020)	8,061		(270,959)
Net income (loss)	(432,830)	(445,733)	12,881	432,830	(432,852)
Less: Net income (loss) attributable to noncontrolling interest		(22)			(22)
Net income (loss) attributable to Southwestern Energy	$ (432,830)	$ (445,711)	$ 12,881	$ 432,830	$ (432,830)
<u>Three months ended March 31, 2008:</u>					
Operating revenues	$	$ 450,611	$ 106,720	$ (33,225)	$ 524,106
Operating costs and expenses:					
Gas purchases		146,873	58,656	(21,182)	184,347
Operating expenses		21,902	13,995	(11,901)	23,996

General and administrative expenses		17,699	6,183	(142)	23,740
Depreciation, depletion and amortization		93,007	4,090		97,097
Taxes, other than income taxes		5,934	1,482		7,416
Total operating costs and expenses		285,415	84,406	(33,225)	336,596
Operating income		165,196	22,314		187,510
Other income (loss)		113	(106)		7
Equity in earnings of subsidiaries	109,029			(109,029)	
Interest expense		8,592	2,937		11,529
Income before income taxes	109,029	156,717	19,271	(109,029)	175,988
Provision for income taxes		59,501	7,323		66,824
Net income	109,029	97,216	11,948	(109,029)	109,164
Less: Net income attributable to noncontrolling interest		135			135
Net income attributable to Southwestern Energy	$ 109,029	$ 97,081	$ 11,948	$ (109,029)	$ 109,029

CONDENSED CONSOLIDATING BALANCE SHEETS

(Unaudited)

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
			(in thousands)		

March 31, 2009:

ASSETS

Cash and cash equivalents	$ 82,139	$	$ 183	$	$ 82,322
Accounts receivable	428	206,172	3,234		209,834
Inventories		34,532	813		35,345
Other	29,869	495,337	485		525,691
Total current assets	112,436	736,041	4,715		853,192
Intercompany receivables	1,363,759	(971,174)	(382,908)	(9,677)	
Investments		10,309	(10,308)	(1)	
Property and equipment	58,925	5,296,555	485,204		5,840,684
Accumulated depreciation, depletion and amortization	(32,501)	(2,574,741)	(41,088)		(2,648,330)
Net property and equipment	26,424	2,721,814	444,116		3,192,354
Investments in subsidiaries (equity method)	1,473,751			(1,473,751)	
Other assets	13,470	113,579	55,981		183,030
Total assets	$ 2,989,840	$ 2,610,569	$ 111,596	$ (1,483,429)	$ 4,228,576
LIABILITIES AND EQUITY					
Accounts and notes payable	$ 218,560	$ 317,998	$ 23,511	$ (9,678)	$ 550,391
Other current liabilities	1,843	287,325	4,476		293,644
Total current liabilities	220,403	605,323	27,987	(9,678)	844,035
Long-term debt	674,200				674,200
Other liabilities	24,545	16,788	4,799		46,132
Commitments and contingencies					
Deferred income taxes	(103,632)	570,453	23,064		489,885
Total liabilities	815,516	1,192,564	55,850	(9,678)	2,054,252
Total equity	2,174,324	1,418,005	55,746	(1,473,751)	2,174,324

Total liabilities and equity	$ 2,989,840	$ 2,610,569	$ 111,596	$ (1,483,429)	$ 4,228,576

CONDENSED CONSOLIDATING BALANCE SHEETS
(Unaudited)

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
			(in thousands)		
December 31, 2008:					
ASSETS					
Cash and cash equivalents	$ 195,969	$	$ 308	$	$ 196,277
Accounts receivable	404	250,687	3,466		254,557
Inventories		49,579	798		50,377
Other	9,837	377,455	762		388,054
Total current assets	206,210	677,721	5,334		889,265
Intercompany receivables	1,252,573	(896,577)	(347,293)	(8,703)	
Investments		10,309	(10,308)	(1)	
Property and equipment	57,438	4,844,970	426,506		5,328,914
Accumulated depreciation, depletion and amortization	(30,679)	(1,548,927)	(35,701)		(1,615,307)
Net property and equipment	26,759	3,296,043	390,805		3,713,607
Investments in subsidiaries (equity method)	1,822,057			(1,822,057)	
Other assets	13,983	99,547	43,756		157,286
Total assets	$ 3,321,582	$ 3,187,043	$ 82,294	$ (1,830,761)	$ 4,760,158

LIABILITIES AND EQUITY					
Accounts and notes payable	$ 241,227	$ 330,270	$ 15,360	$ (8,704)	$ 578,153
Other current liabilities	1,810	210,087	2,811		214,708
Total current liabilities	243,037	540,357	18,171	(8,704)	792,861
Long-term debt	674,200				674,200
Other liabilities	25,723	22,686	5,018		53,427
Commitments and contingencies					
Deferred income taxes	(139,341)	845,593	15,455		721,707
Total liabilities	803,619	1,408,636	38,644	(8,704)	2,242,195
Total equity	2,517,963	1,778,407	43,650	(1,822,057)	2,517,963
Total liabilities and equity	$ 3,321,582	$ 3,187,043	$ 82,294	$ (1,830,761)	$ 4,760,158

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(Unaudited)

	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
			(in thousands)		
Three months ended March 31, 2009:					
Net cash provided by operating activities	$ 31,055	$ 361,094	$ 15,146	$	$ 407,295
Investing activities:					
Capital investments	(2,946)	(426,019)	(51,518)		(480,483)
Other	1,822	(7,139)	947		(4,370)
Net cash used in investing activities	(1,124)	(433,158)	(50,571)		(484,853)
Financing activities:					

Intercompany activities	(107,364)	72,064	35,300		
Other items	(36,397)				(36,397)
Net cash provided by (used in) financing activities	(143,761)	72,064	35,300		(36,397)
Decrease in cash and cash equivalents	(113,830)		(125)		(113,955)
Cash and cash equivalents at beginning of year	195,969		308		196,277
Cash and cash equivalents at end of period	$ 82,139	$	$ 183	$	$ 82,322
<u>Three months ended March 31, 2008:</u>					
Net cash provided by operating activities	$ 6,813	$ 265,420	$ 24,854	$	$ 297,087
Investing activities:					
Capital investments	(1,096)	(357,600)	(32,333)		(391,029)
Other	1,523	(600)	(461)		462
Net cash provided by (used in) investing activities	427	(358,200)	(32,794)		(390,567)
Financing activities:					
Intercompany activities	(101,380)	92,780	8,600		
Payments on revolving long-term debt	(927,400)				(927,400)
Borrowings under revolving long-term debt	426,400				426,400
Proceeds from issuance of long-term debt	600,000				600,000
Other items	(5,146)				(5,146)
Net cash provided by (used in) financing activities	(7,526)	92,780	8,600		93,854
Increase (decrease) in cash and cash equivalents	(286)		660		374

Cash and cash equivalents at beginning of year		433			1,399 (1)			1,832
Cash and cash equivalents at end of period	$	147	$	$	2,059 (1)	$	$	2,206

(1)

Cash and cash equivalents at the beginning of the year for 2008 and at March 31, 2008 include $1.1 million and $1.7 million, respectively, classified as held for sale. See Note 4 for additional information.

(7)

DERIVATIVES AND RISK MANAGEMENT

The Company is exposed to commodity price risk which impacts the predictability of its cash flows related to the sale of natural gas and oil. The primary risk managed by the Company s use of certain derivative financial instruments is commodity price risk. These derivative financial instruments allow the Company to limit its exposure to a portion of its projected natural gas sales. At March 31, 2009 and December 31, 2008, the Company s derivative financial instruments consisted of price swaps, costless collars and basis swaps. A description of the Company s derivative financial instruments is provided below:

Fixed price swaps

The Company receives a fixed price for the contract and pays a floating market price to the counterparty.

Floating price swaps

The Company receives a floating market price from the counterparty and pays a fixed price.

Costless-collars

Contain a fixed floor price (put) and a fixed ceiling price (call). If the market price exceeds the call strike price or falls below the put strike price, the Company receives the fixed price and pays the market price. If the market price is between the call and the put strike price, no payments are due from either party.

Basis swaps

Matched and unmatched arrangements that guarantee a price differential for natural gas from a specified delivery point. The Company receives a payment from the counterparty if the price differential is greater than the stated terms of the contract and pays the counterparty if the price differential is less than the stated terms of the contract.

SFAS 133 requires that all derivatives be recognized in the balance sheet as either an asset or liability measured at its fair value. Under SFAS 133, certain criteria must be satisfied in order for derivative financial instruments to be classified and accounted for as either a cash flow or a fair value hedge. Accounting for qualifying hedges requires a derivative s gains and losses to be recorded as a component of other comprehensive income. Gains and losses on derivatives that are not elected for hedge accounting treatment or that do not meet the requirements of SFAS 133 are recorded in earnings.

The Company utilizes counterparties for its derivative instruments that it believes are credit-worthy entities at the time the transactions are entered into and the Company closely monitors the credit ratings of these counterparties. Additionally, the Company performs both quantitative and qualitative assessments of these counterparties based on their credit ratings and credit default swap rates where applicable. However, the recent events in the financial markets demonstrate there can be no assurance that a counterparty financial institution will be able to meet its obligations to the Company.

None of the Company s derivative instruments contain credit-risk-related contingent features other than one derivative instrument which expires in December 2009. The credit-risk-related contingent feature is triggered when a net liability owed to the counterparty with the credit-risk-related contingent feature exceeds a threshold amount. The cash collateral amount that may be required to be remitted to the counterparty upon the trigger of the credit-risk-related contingent feature is equal to the net liability owed to the counterparty less the threshold amount. The derivative instrument containing the credit-risk-related contingent feature is in a net asset position as of March 31, 2009 and no amounts have been remitted as collateral to the counterparty. The Company has not incurred any credit-related losses associated with its derivative activities and believes that its counterparties will continue to be able to meet their obligations under these transactions.

The balance sheet classification of the assets and liabilities related to derivative financial instruments are summarized below at March 31, 2009 and December 31, 2008:

	Derivative Assets			
	2009		2008	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
	(in thousands)			
Derivatives designated as hedging instruments				
Fixed and floating price swaps	Hedging asset	$ 284,448	Hedging asset	$ 174,985
Costless-collars	Hedging asset	170,096	Hedging asset	165,671
Fixed and floating price swaps	Other Assets	81,736	Other Assets	66,349
Costless-collars	Other Assets	24,863	Other Assets	26,202
Total derivatives designated as hedging instruments		$ 561,143		$ 433,207
Derivatives not designated as hedging instruments				
Basis swaps	Hedging asset	$ 2,067	Hedging asset	$ 2,664
Basis swaps	Other Assets	1,316	Other Assets	1,844
Total derivatives not designated as hedging instruments		$ 3,383		$ 4,508
Total derivative assets		$ 564,526		$ 437,715

	Derivative Liabilities			
	2009		2008	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
	(in thousands)			

Derivatives designated as hedging instruments						
Fixed and floating price swaps	Hedging liability	$	1,165	Hedging liability	$	2,679
Costless-collars	Hedging liability		1,404	Hedging liability		5,670
Fixed and floating price swaps	Long-term hedging liability		632	Long-term hedging liability		557
Costless-collars	Long-term hedging liability		1,601	Long-term hedging liability		5,142
Total derivatives designated as hedging instruments		$	4,802		$	14,048
Derivatives not designated as hedging instruments						
Basis swaps	Hedging liability	$	1,679	Hedging liability	$	2,550
Basis swaps	Long-term hedging liability		621	Long-term hedging liability		235
Total derivatives not designated as hedging instruments		$	2,300		$	2,785
Total derivative liabilities		$	7,102		$	16,833

Cash Flow Hedges

The reporting of gains and losses on cash flow derivative hedging instruments depends on whether the gains or losses are effective at offsetting changes in the cash flows of the hedged item. The effective portion of the gains and losses on the derivative hedging instrument are recorded in other comprehensive income until recognized in earnings during the period that the hedged transaction takes place. The ineffective portion of the gains and losses from the derivative hedging instrument is recognized in earnings immediately.

As of March 31, 2009 and 2008, the Company had cash flow hedges on the following volumes of gas production:

	2009	2008
Natural Gas (Bcf):		
Fixed price swaps:		
2008		64.5
2009	63.0	76.0
2010	36.0	28.0
Costless-collars:		
2008		30.0
2009	36.0	47.0
2010	14.0	14.0
Matched-basis swaps:		
2008		4.5

At March 31, 2009, the Company recorded a net gain to other comprehensive income of $343.6 million related to its hedging activities, net of a deferred income tax liability of $212.4 million. The amount recorded in other comprehensive income will be relieved over time and taken to the statement of operations as the physical transactions being hedged occur. Assuming the market prices of gas futures as of March 31, 2009 remain unchanged, the Company would expect to transfer an aggregate after-tax net gain of approximately $279.3 million from accumulated other comprehensive income to earnings during the next 12 months. Gains or losses from derivative instruments designated as cash flow hedges are reflected as adjustments to gas sales in the unaudited condensed consolidated statements of operations. Gas sales included a realized gain from settled contracts of $141.5 million in the first quarter of 2009, compared to a realized gain of $19.0 million in the first quarter of 2008 related to cash flow hedges. Volatility in earnings and other comprehensive income may occur in the future as a result of the application of SFAS 133.

The following tables summarize the effect of all cash flow hedges on the unaudited condensed consolidated statements of operations for the three months ended March 31, 2009 and 2008:

	Gain(Loss) Recognized in Other Comprehensive Income (Effective Portion)	
Derivative Instrument	2009	2008
	(in thousands)	

Fixed price swaps	$ 224,992	$ (132,267)
Costless-collars	$ 118,598	$ (36,208)
Matched-basis swaps	$	$ 980

Derivative Instrument	Classification of Gain(Loss) Reclassified from Accumulated Other Comprehensive Income into Earnings (Effective Portion)	Gain(Loss) Reclassified from Accumulated Other Comprehensive Income into Earnings (Effective Portion)	
		2009	2008
		(in thousands)	
Fixed price swaps	Gas Sales	$ 53,414	$ 7,046
Costless-collars	Gas Sales	$ 88,043	$ 12,786
Matched-basis swaps	Gas Sales	$	$ (812)

Derivative Instrument	Classification of Gain(Loss) Recognized in Earnings (Ineffective Portion)	Gain(Loss) Recognized in Earnings (Ineffective Portion)	
		2009	2008
		(in thousands)	
Fixed price swaps	Gas Sales	$ 365	