

SOUTHWESTERN ENERGY CO

Form 10-Q

November 01, 2012

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, 2012

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, 77032

Suite 125, Houston, Texas

(Address of principal executive offices) (Zip Code)

(281) 618-4700

(Registrant's telephone number, including area code)

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

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

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 26, 2012
Common Stock, Par Value \$0.01	350,353,301

SOUTHWESTERN ENERGY COMPANY

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FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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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 fund our planned capital investments;
- 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;
- the impact of government regulation, including any increase in severance or similar taxes, legislation relating to hydraulic fracturing, the climate and over the counter derivatives;
- the costs and availability of oilfield personnel, services and drilling supplies, raw materials, and equipment, including pressure pumping equipment and crews;
- our ability to determine the most effective and economic fracture stimulation for the Fayetteville Shale play and Marcellus Shale play;
- our future property acquisition or divestiture activities;
- the impact of the adverse outcome of any material litigation against us;
- the effects of weather;
- increased competition and regulation;
- 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 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, 2011 (the 2011 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 September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
	(in thousands, except share/per share amounts)			
Operating Revenues:				
Gas sales	\$491,340	\$551,770	\$1,384,152	\$1,544,165
Gas marketing	148,764	176,787	423,503	549,243
Oil sales	1,889	2,157	6,097	7,387
Gas gathering	43,855	36,541	128,293	107,961
	685,848	767,255	1,942,045	2,208,756
Operating Costs and Expenses:				
Gas purchases midstream services	149,651	175,236	423,941	545,518
Operating expenses	61,906	63,911	179,478	175,763
General and administrative expenses	36,121	35,600	129,879	112,955
Depreciation, depletion and amortization	200,655	179,113	602,112	514,180
Impairment of natural gas and oil properties	441,465		1,377,364	
Taxes, other than income taxes	16,252	17,677	51,154	49,429
	906,050	471,537	2,763,928	1,397,845
Operating Income (Loss)	(220,202)	295,718	(821,883)	810,911
Interest Expense:				
Interest on debt	25,463	16,696	69,154	48,380
Other interest charges	1,058	902	3,096	3,414
Interest capitalized	(15,915)	(11,941)	(45,945)	(32,531)
	10,606	5,657	26,305	19,263
Other Income (Loss), Net	238	(122)	2,615	321
Income (Loss) Before Income Taxes	(230,570)	289,939	(845,573)	791,969
Provision (Benefit) for Income Taxes:				
Current	101	3,491	369	3,691
Deferred	(85,856)	111,275	(320,731)	309,042
	(85,755)	114,766	(320,362)	312,733
Net Income (Loss)	\$(144,815)	\$175,173	\$(525,211)	\$479,236
Earnings (Loss) Per Share:				
Basic	\$(0.42)	\$0.50	\$(1.51)	\$1.38

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Diluted	\$ (0.42)	\$ 0.50	\$ (1.51)	\$ 1.37
Weighted Average Common Shares Outstanding:				
Basic	348,649,630	347,239,793	348,272,192	347,070,330
Diluted	348,649,630	349,998,789	348,272,192	349,891,885

See the accompanying notes which are an integral part of these

unaudited condensed consolidated financial statements.

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

	For the three months ended September 30, 2012 2011		For the nine months ended September 30, 2012 2011	
	(in thousands)			
Net income (loss)	\$(144,815)	\$175,173	\$(525,211)	\$479,236
Change in derivatives:				
Reclassification to earnings ⁽¹⁾	(94,996)	(49,436)	(310,882)	(113,850)
Ineffectiveness ⁽²⁾	322	1,574	(1,215)	307
Change in fair value of derivative instruments ⁽³⁾	(36,468)	170,251	93,985	259,559
Total change in derivatives	(131,142)	122,389	(218,112)	146,016
Change in value of pension and other postretirement liabilities:				
Amortization of prior service cost included in net periodic pension cost ⁽⁴⁾	254	197	762	590
Change in currency translation adjustment	997	(1,219)	962	(831)
Comprehensive income (loss)	\$(274,706)	\$296,540	\$(741,599)	\$625,011

(1) Net of \$(62.2), \$(31.6), \$(202.6) and \$(72.8) million in taxes for the three months ended September 30, 2012 and 2011, and the nine months ended September 30, 2012 and 2011, respectively.

(2) Net of \$0.2, \$1.0, \$(0.8) and \$0.2 million in taxes for the three months ended September 30, 2012 and 2011, and the nine months ended September 30, 2012 and 2011, respectively.

(3) Net of \$ (22.1), \$108.8, \$62.7 and \$165.9 million in taxes for the three months ended September 30, 2012 and 2011, and the nine months ended September 30, 2012 and 2011, respectively.

(4) Net of \$0.2, \$0.2, \$0.5 and \$0.4 million in taxes for the three months ended September 30, 2012 and 2011, and the nine months ended September 30, 2012 and 2011, respectively.

See the accompanying notes which are an integral part of these
unaudited condensed consolidated financial statements.

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

	September 30, 2012	December 31, 2011
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,560	\$ 15,627
Restricted cash	127,074	
Accounts receivable	297,773	341,915
Inventories	30,630	46,234
Hedging asset	300,861	514,465
Other	71,849	60,037
Total current assets	846,747	978,278
Natural gas and oil properties, using the full cost method, including \$1,130.4 million in 2012 and \$942.9 million in 2011 excluded from amortization	10,855,274	9,544,708
Gathering systems	1,087,139	980,647
Other	564,490	535,464
Less: Accumulated depreciation, depletion and amortization	(6,414,955)	(4,415,339)
Total property and equipment, net	6,091,948	6,645,480
Other assets	134,256	279,139
TOTAL ASSETS	\$ 7,072,951	\$ 7,902,897
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 468,646	\$ 514,071
Taxes payable	36,902	40,691
Interest payable	14,232	20,565
Advances from partners	110,237	84,082
Current deferred income taxes	116,463	194,163
Other	14,685	31,341
Total current liabilities	761,165	884,913
Long-term debt	1,695,342	1,342,100
Deferred income taxes	1,203,703	1,586,798
Pension and other postretirement liabilities	18,141	20,338
Other long-term liabilities	141,321	99,444
Total long-term liabilities	3,058,507	3,048,680
Commitments and contingencies (Note 10)		
Equity:		
Common stock, \$0.01 par value; authorized 1,250,000,000 shares; issued 350,415,917 shares in 2012 and 349,058,501 in 2011	3,504	3,491
Additional paid-in capital	928,322	903,399
Retained earnings	2,131,003	2,656,214
Accumulated other comprehensive income	192,040	408,428

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Common stock in treasury, 66,791 shares in 2012 and 98,889 in 2011	(1,590)	(2,228)
Total equity	3,253,279	3,969,304
TOTAL LIABILITIES AND EQUITY	\$7,072,951	\$7,902,897

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 nine months ended September 30,	
	2012	2011
	(in thousands)	
Cash Flows From Operating Activities		
Net income (loss)	\$(525,211)	\$479,236
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	604,887	516,891
Impairment of natural gas and oil properties	1,377,364	
Deferred income taxes	(320,731)	309,042
Unrealized gain on derivatives	(2,890)	905
Stock-based compensation	8,226	6,619
Other	312	(353)
Change in assets and liabilities:		
Accounts receivable	44,148	4,664
Inventories	16,608	(5,993)
Accounts payable	(11,050)	1,539
Taxes payable	(3,789)	(21,165)
Interest payable	(2,306)	(9,365)
Advances from partners	26,155	14,568
Other assets and liabilities	(19,246)	3,623
Net cash provided by operating activities	1,192,477	1,300,211
Cash Flows From Investing Activities		
Capital investments	(1,623,751)	(1,543,549)
Proceeds from sale of property and equipment	201,161	121,546
Transfers to restricted cash	(167,774)	(85,040)
Transfers from restricted cash	40,700	15,779
Other	5,239	4,940
Net cash used in investing activities	(1,544,425)	(1,486,324)
Cash Flows From Financing Activities		
Payments on current portion of long-term debt	(600)	(600)
Payments on revolving long-term debt	(1,774,000)	(2,575,000)

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Borrowings under revolving long-term debt	1,129,000	2,753,600
Change in bank drafts outstanding	1,627	10,621
Proceeds from issuance of long-term debt	998,780	
Debt issuance costs	(8,338)	
Revolving credit facility costs		(10,211)
Proceeds from exercise of common stock options	8,422	4,844
Net cash provided by financing activities	354,891	183,254
Effect of exchange rate changes on cash	(10)	97
Increase (decrease) in cash and cash equivalents	2,933	(2,762)
Cash and cash equivalents at beginning of year	15,627	16,055
Cash and cash equivalents at end of period	\$ 18,560	\$ 13,293

See the accompanying notes which are an integral part of these unaudited condensed consolidated financial statements.

