

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark one)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 1999

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 1-8246

SOUTHWESTERN ENERGY COMPANY

(Exact name of Registrant as specified in its charter)

ARKANSAS

(State or other jurisdiction of incorporation or organization No.)

71-0205415

(I.R.S. Employer Identification)

1083 Sain Street, P.O.Box 1408, Fayetteville, Arkansas 72702-1408
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code (501) 521-1141

Securities registered pursuant to Section 12(b) of the Act:

Title of each class -----	Name of each exchange on which registered
Common Stock - Par Value \$.10 Exchange	New York Stock

Securities registered pursuant to Section 12(g) of the Act: None

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 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. X

The aggregate market value of the voting stock held by non-affiliates of the Registrant was \$181,640,298 based on the New York Stock Exchange - Composite Transactions closing price on March 8, 2000 of \$7 3/8.

The number of shares outstanding as of March 8, 2000, of the Registrant's Common Stock, par value \$.10, was 25,037,773.

DOCUMENTS INCORPORATED BY REFERENCE

Document incorporated by reference and the Part of the Form 10-K into which the document is incorporated: Definitive Proxy Statement to holders of the Registrant's Common Stock in connection with the solicitation of proxies to be used in voting at the Annual Meeting of Shareholders on May 24, 2000 - PART III.

SOUTHWESTERN ENERGY COMPANY
ANNUAL REPORT on FORM 10-K
For the Year Ended December 31, 1999

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Part I

ITEM 1. BUSINESS

Southwestern Energy Company (the "Company" or "Southwestern") is an integrated energy company primarily focused on natural gas. The Company was incorporated in Arkansas in 1929 as a local gas distribution company. Today, Southwestern is an exempt holding company under the Public Utility Holding Company Act of 1935 and is involved in the following business segments:

1. Exploration and Production - Engaged in natural gas and oil exploration, development and production, with operations principally located in Arkansas, Oklahoma, Texas, New Mexico, and Louisiana.
2. Natural Gas Distribution - Engaged in the gathering, distribution and transmission of natural gas to approximately 181,000 customers in northern Arkansas and parts of Missouri.
3. Marketing and Transportation - Provides marketing and transportation services in the Company's core areas of operation and owns a 25% interest in the NOARK Pipeline System, Limited Partnership (NOARK).

This Report on Form 10-K includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this Report for a discussion of factors that could cause actual results to differ materially from any such forward-looking statements. For segment financial information, see Footnote 12 to the consolidated financial statements in Part II, Item 8 of this Report.

Business Strategy

The Company's business strategy is to provide long-term growth through focused exploration and development of oil and natural gas, while creating additional value through the Company's natural gas distribution, marketing and transportation activities. The Company seeks to maximize cash flow and earnings and provide consistent growth in oil and gas production and reserves through the discovery, production and marketing of high margin reserves from a balanced portfolio of drilling opportunities. This balanced portfolio includes low-risk development drilling in the Arkoma Basin, moderate-risk exploration and exploitation in the Permian Basin, and high-potential exploration opportunities in the Gulf Coast. Additionally, the Company strives to operate its utility systems safely and efficiently and to improve the competitive position and profitability of its utility systems. The Company is also committed to enhancing shareholder value by creating and capturing additional value beyond the wellhead through its marketing and transportation activities.

EXPLORATION AND PRODUCTION

In 1943, the Company commenced a program of exploration for and development of natural gas reserves in Arkansas for supply to its utility customers. In 1971, the Company initiated an exploration and development program outside Arkansas, unrelated to the utility's requirements. Since that time, the Company's exploration and development activities outside Arkansas have expanded substantially.

During 1998, Southwestern brought in new senior operating management and replaced over 50% of its professional technical staff to refocus its exploration and production segment. Additionally in 1998, the Company closed its Oklahoma City office and moved these operations to its Houston office in an effort to increase future profitability.

The segment was also reorganized into asset management teams to provide an area specific focus in exploration and development projects and a new incentive compensation system was put in place to more closely align its employees' efforts with the interests of its shareholders.

At December 31, 1999, the Company had proved oil and gas reserves of 354.7 billion cubic feet (Bcf) equivalent, including proved natural gas reserves of 307.5 Bcf and proved oil reserves of 7,859 thousand barrels (MBbls). The Company's reserve life index averaged nearly 11 years at year-end 1999, with 83% of total reserves classified as proved developed. All of the Company's reserves are located entirely within the United States. Revenues of the exploration and production subsidiaries are predominately generated from production of natural gas. Sales of gas production accounted for 87% of total operating revenues for this segment in 1999, 89% in 1998, and 86% in 1997.

Areas of Operation

Southwestern engages in gas and oil exploration and production through its subsidiaries, SEECO, Inc. (SEECO), Southwestern Energy Production Company (SEPCO), and Diamond "M" Production Company (Diamond M). SEECO operates exclusively in the state of Arkansas and holds a large base of both developed and undeveloped gas reserves and conducts an ongoing drilling program in the historically productive Arkansas part of the Arkoma Basin. SEPCO conducts development drilling and exploration programs in areas outside Arkansas, including the Permian Basin of Texas and New Mexico, the Gulf Coast areas of Louisiana and Texas, and the Anadarko Basin of Oklahoma. Diamond M operates properties in the Permian Basin of Texas.

The following table provides information as to proved reserves, well count, and gross and net acreage as of December 31, 1999, and annual information as to production and reserve additions for 1999 for each of the Company's core operating areas.

	Arkoma	Mid-Continent	Permian	Gulf Coast	Total

Proved Reserves:					
Gas (Bcf)	200.0	31.7	42.6	33.2	307.5
Oil (MBbls)	-	2,275	4,722	862	7,859
Total Reserves (Bcfe)	200.0	45.3	70.9	38.5	354.7
Production (Bcfe)	20.3	4.9	5.2	2.5	32.9
Reserve Additions (Bcfe)	18.2	0.1	23.5	7.5	49.3
Total Gross Wells	794	799	294	77	1,964
Percent Operated	44%	34%	43%	33%	39%
Gross Acreage	290,363	165,649	259,238	94,466	809,716
Net Acreage	231,642	71,071	42,790	39,155	384,658

Arkoma Basin. Southwestern has developed a key competitive position in the Arkoma since it commenced drilling in the basin in 1943. At December 31, 1999, the Company had approximately 200.0 Bcf of natural gas reserves in the Arkoma Basin, representing 65% of the Company's natural gas reserves and 56% of total reserves on a Bcf equivalent basis. The Company participated in 37 wells during 1999 with a 70% success ratio and an average working interest of 46%. This level of drilling activity was somewhat lower as compared to prior years, due to cash flow limitations. During

1999, the Company's Arkoma drilling program added 18.2 Bcf of gas reserves at a finding and development cost of \$.90 per Mcf. Average net daily production in 1999 was 55.7 million cubic feet equivalent (MMcfe) and production, or lifting costs, in the basin during 1999 were \$.22 per Mcfe (including production taxes).

Southwestern's traditional operating area over the years has been in the "fairway" part of the basin, which is primarily within the boundaries of its utility gathering system. Southwestern continued its drilling activities in the fairway in 1999, completing five wells out of seven drilled and adding 5.7 Bcf of new reserves. The largest success in this area was the Teague #1-16 well in Johnson County, Arkansas. This well was drilled to total depth of 4,500 feet and was placed on production at 1.9 MMcf of gas per day.

The Company also completed extensive mapping of the basin's 26 productive horizons covering over 2,300 square miles in the fairway that will help recognize additional or previously untapped reserve potential. In 2000, Southwestern plans to increase its activity in the fairway by drilling 22 wells in this gas-rich area.

Additionally, Southwestern has continued to develop new geologic plays and extend previously identified productive trends outside the fairway area. A promising new play has been the Ranger Anticline prospect area, located near the southern edge of the basin. To date, the Company has successfully drilled four out of five wells in this prospect, targeting the deeper Borum sands that tend to yield higher production rates and greater reserve potential per well. The Company currently plans to drill three wells in the prospect area in 2000, but this number could be increased with positive drilling results during the first part of the year.

The Company successfully developed another new prospect area during 1999, its Cherokee prospect, located in the Oklahoma portion of the basin. During 1999, the Company targeted the Red Oak, Brazil, and Spiro sand reservoirs in this under-explored portion of the basin and completed six wells out of ten drilled. One well in the prospect, the Calvin Terry #1 in LeFlore County, Oklahoma, was recently placed on production at 5.8 MMcf per day. The Company plans further development of this prospect with up to ten additional wells being drilled in 2000.

Overall, the Company initiated drilling in four promising new prospect areas in 1999, all located outside of the established fairway area. In 2000, the Company intends to drill over 50 wells outside of the traditional fairway drilling area, which includes testing six new prospect areas. In total, the Company plans to participate in 75 wells in the Arkoma Basin in 2000, doubling its 1999 activity.

Mid-Continent. The Company's activities in this region are primarily focused on the Anadarko Basin of Oklahoma. At December 31, 1999, the Company had approximately 31.7 Bcf of natural gas reserves and 2,275 MBbls of oil reserves in the region, representing 10% and 29%, respectively, of the Company's total gas and oil reserves. Average net daily production in 1999 for this region was 13.4 MMcfe. During 1998, the Company closed its Oklahoma City office and moved these operations to Houston. Southwestern does not expect its Mid-Continent operations to be a primary area of future growth due to its efforts to concentrate on those areas where it has a competitive advantage. During 1999 and the first part of 2000, the Company sold approximately 235 marginal properties in the Mid-Continent area with estimated remaining reserves of 4.8 Bcfe.

Permian Basin. Through successful drilling results, a small acquisition and several new joint ventures, Southwestern made meaningful strides in becoming a more significant player in the Permian Basin in 1999. At December 31, 1999, Southwestern had proved reserves of 42.6 Bcf of gas and 4,722 MBbls of oil in the region, representing 14% and 60%,

respectively, of the Company's total gas and oil reserves. During 1999, average net daily production in the basin was 14.2 MMcfe and production costs averaged \$.71 per Mcfe. This rate includes higher operating costs from secondary recovery oil properties acquired by the Company in 1996. Production costs exclusive of these properties were \$.39 per Mcfe in 1999.

The Company successfully completed 18 out of 22 wells drilled in the Permian in 1999, resulting in a success rate of 82%. At year-end, drilling operations at seven wells were still in progress. Southwestern's average working interest in the Permian during 1999 was 24%. Total reserve additions from drilling and acquisitions were 23.5 Bcfe at a finding cost of \$.79 per Mcfe in 1999, while reserve additions through drilling were 10.6 Bcfe at a finding cost of \$.86 per Mcfe.

Southwestern enjoyed meaningful success in its Logan Draw development area in Eddy County, New Mexico, successfully drilling 11 out of 13 wells there in 1999. Southwestern holds an average 28% working interest in the Logan Draw development area, which is the combination of the Company's Top Dog, Amber, and Freight Train prospects. Two notable wells in the Freight Train prospect, the Amtrack State Com #1 and the Mule Train 16 State #1, are each currently producing approximately 10.0 MMcfe per day. In 2000, Southwestern plans to drill 11 wells in the Logan Draw area.

The Company continued to successfully develop its Gaucho production unit in Lea County, New Mexico, completing three out of four wells there in 1999. The Gaucho #3 well was drilled during the first quarter of 1999 and is currently producing 9.1 MMcfe per day. Additionally, the Company successfully confirmed production from younger Atoka sands in three wells in the unit. Until 1999, hydrocarbons in the Gaucho unit had been exclusively produced from Morrow sand objectives. Southwestern holds a 50% working interest in the Gaucho unit and plans to drill two wells in the unit in 2000.

The Company established a stronger presence in the basin with the acquisition of producing properties from Petro-Quest Exploration effective September 1, 1999. The transaction added 12.9 Bcfe of reserves for approximately \$9.4 million. This transaction is discussed more fully below under "Acquisitions."

Additionally, the Company established exploration joint ventures in the basin with Phillips Petroleum, Stratex, Inc., and Petro-Quest Exploration. Several drilling opportunities have already been identified and planned for 2000 from these new ventures. Overall, Southwestern plans to participate in over 40 wells in the Permian in 2000, almost doubling its 1999 activity.

Gulf Coast. Southwestern became active in the Gulf Coast in 1990 and this area continues to be the main focus area of the Company's high impact exploration activities. At December 31, 1999, Southwestern had proved reserves of 33.2 Bcf of gas and 862 MBbls of oil in the region, representing 11 percent of the Company's total reserves on a gas equivalent basis. Average net daily production in this area was 6.8 MMcfe, compared to 13.2 MMcfe per day in 1998, with production costs averaging \$1.06 per Mcfe during 1999. The decrease in 1999 production was due to the loss of production from certain wells in south Louisiana.

The Company has built an extensive inventory of 3-D seismic data covering over 900 miles in the Gulf Coast region of Texas and Louisiana. During 1999, the Company continued to analyze this seismic data and has generated several prospects to be drilled in 2000. The Company strives to limit its working interest participation in its higher-risk Gulf Coast exploration prospects to 50% or less.

Southwestern commenced drilling on two prospects in its Boure 3-D seismic project in 1999 with positive results. The Boure 3-D project covers 185 square miles in Assumption Parish, Louisiana. This seismic data was delivered to and interpreted by the Company during 1999. In December 1999, the Company announced its first discovery in the Boure 3-D project. The Dugas & LeBlanc #1 well, located on the Company's Gloria prospect, was drilled to a total depth of 14,950 feet and encountered three separate sand intervals between 14,400 feet and 14,856 feet in the Lower Miocene Planulina formation. The well is currently producing 5.4 million cubic feet of gas and 150 barrels of condensate per day from the lowest sand interval. Southwestern is the operator of the well and holds a 50% working interest. The Company announced in February 2000 that it had made another discovery at its North Grosbec prospect. The Brownell-Kidd #1 well logged approximately 50 feet of net pay sand in the Upper Discorbis interval at approximately 16,950 feet. The Company is currently completing and testing the well. Southwestern holds a 25% working interest in the well which is operated by Petro-Hunt, L.L.C.

In 2000, the Company plans to drill up to two prospects in its East Atchafalaya 3-D project. This project covers 113 square miles in portions of St. Martin and Iberia Parishes, Louisiana. Southwestern became involved in the East Atchafalaya 3-D project in 1995 with Union Pacific Resources Company. To date, the Company has participated in five wells in the project, with two wells being completed as producers. The Company drilled one well in the East Atchafalaya project in 1999, the Panther prospect, which was unsuccessful.

In late 1998, the Company formed a strategic alliance with industry partners to jointly evaluate and explore a new proprietary 3-D seismic survey in the Nodosaria Embayment area of Lafayette, St. Landry and Acadia Parishes, covering over 140 square miles. This seismic data was delivered to the Company during 1999. Interpretation of the data has identified several exploration leads and the Company currently plans to test its first prospect in the survey, Havilah, in April 2000. Southwestern currently has a 27.5% working interest in the 3-D project and is the operator.

The Company also was successful in leveraging its seismic databank and regional geologic expertise into additional drilling opportunities for 2000. Overall, the Company plans to drill seven additional prospects in the Gulf Coast area in 2000.

Acquisitions

Effective September 1, 1999, the Company purchased producing properties in the Permian Basin with estimated proved reserves of 9.4 Bcf of gas and 576 MBbls of oil, or 12.9 Bcfe. The properties were purchased from Petro-Quest Exploration, a privately held company headquartered in Midland, Texas, for \$9.4 million. In addition, Southwestern established an exploration joint venture agreement with Petro-Quest which will result in additional drilling opportunities. The transaction strengthens Southwestern's position in the Permian Basin, which continues to grow as a core operating area for the Company.

The Company did not make any producing property acquisitions in 1998 or 1997. In 1996, the Company acquired approximately 32.7 Bcf of gas and 6,350 MBbls of oil located in Texas and Oklahoma for \$45.8 million. In 1995, the Company acquired 4.5 Bcf of gas and 851 MBbls of oil located in the Gulf Coast for \$6.0 million. The Company's current strategy is to pursue selective acquisitions that would complement its existing operations.

Capital Spending

Southwestern began 2000 with planned capital expenditures for gas and oil exploration and development of \$55.4 million. The Company's capital budget is balanced between the Company's core areas of operations and is focused more

on drilling in 2000. Approximately 37% of the Company's total exploration and development budget for 2000 is allocated to the Company's low-risk development activities in the Arkoma Basin, 21% is allocated to medium-risk exploration and exploitation in the Permian Basin, and 24% is allocated to high-potential exploration in the Gulf Coast. Although no capital was budgeted for acquisitions in 2000, the Company will continue to seek producing property transactions in its core producing areas that would complement its overall strategy. The Company expects to maintain its capital investments within the limits of internally generated cash flow, and will adjust its capital program accordingly.

Sales and Major Customers

Natural gas equivalent production averaged 90 million cubic feet per day (MMcfd) in 1999, compared to 101 MMcfd in 1998, and 104 MMcfd in 1997. The Company's gas production was 29.4 Bcf in 1999, down from 32.7 Bcf in 1998, and 33.4 Bcf in 1997. The Company also produced 578,000 barrels of oil in 1999, compared to 703,000 barrels in 1998, and 749,000 barrels in 1997. The decreases in production in 1999 were the result of lower non-operated production due to the industry slowdown during late 1998 and early 1999, the decline in production from certain wells in the Gulf Coast area and production losses from marginal properties that were sold during the year. The Company expects its equivalent production in 2000 to increase 5% to 10% over the 1999 level.

The Company's natural gas production received an average wellhead price of \$2.21 per thousand cubic feet (Mcf) in 1999, compared to \$2.34 per Mcf in 1998 and \$2.57 per Mcf in 1997. Prices received for the Company's oil production averaged \$17.11 per barrel in 1999, compared to \$13.60 per barrel in 1998 and \$19.02 per barrel in 1997.

Southwestern's largest single customer for sales of its gas production is the Company's utility subsidiary, Arkansas Western Gas Company (Arkansas Western). These sales are made by SEECO. Sales to Arkansas Western accounted for approximately 31% of total exploration and production revenues in 1999, 38% in 1998, and 43% in 1997. All of the Company's remaining sales are to unaffiliated purchasers.

SEECO's production was 18.9 Bcf in 1999, down from 19.5 Bcf in 1998 and 21.7 Bcf in 1997. SEECO's sales to Arkansas Western were 8.2 Bcf in 1999, down from 11.3 Bcf in 1998 and 14.3 Bcf in 1997. The decreases in affiliated gas sales were primarily the result of warmer weather in the utility's service territory.

Gas volumes sold by SEECO to Arkansas Western for its northwest Arkansas division (AWG) were 5.1 Bcf in 1999, 7.7 Bcf in 1998, and 8.6 Bcf in 1997. Through these sales, SEECO furnished 37% of the northwest Arkansas system's requirements in 1999, 59% in 1998, and 64% in 1997. SEECO also delivered approximately 2.6 Bcf in 1999, 2.0 Bcf in 1998, and 1.0 Bcf in 1997 directly to certain large business customers of AWG through a transportation service of the utility subsidiary. Most of the sales to AWG prior to December 1998 were pursuant to a twenty-year contract between SEECO and AWG, entered into in July 1978, under which the price was frozen between 1984 and 1994. This contract was amended in 1994 as a result of a settlement reached to resolve certain gas cost issues before the Arkansas Public Service Commission (APSC). This contract expired July 24, 1998, but continued on a month-to-month basis through November 1998.

In March 1997, AWG filed a gas supply plan with the APSC which projected system load growth patterns and long range gas supply needs for the utility's northwest Arkansas system. The gas supply plan also addressed replacement supplies for AWG's long-term contract with SEECO. After discussions with the APSC it was determined that the majority of the utility's future gas supply needs should be provided through a competitive bidding process. On October 1, 1998, AWG sent requests for proposals to various suppliers requesting bids on seven different packages of gas supply to be

effective December 1, 1998. These bid requests included replacement of the gas supply and no-notice service previously provided by the long-term gas supply contract between AWG and SEECO. Eleven potential suppliers returned bids in late October.

SEECO along with the Company's marketing subsidiary successfully bid on five of the seven packages with prices based on the Reliant East Index plus a demand charge. The volumes of gas projected to be sold under these contracts are approximately equal to the historical annual volumes sold under the expired long-term contracts, assuming normal weather patterns. However, the volumes to be sold under these contracts are not fixed as they were under the expired contract and will fluctuate with the weather-related requirements of AWG. These contracts provide more of the gas needed during periods of colder weather, and less of AWG's base system needs. As a result, periods of abnormally warmer weather, such as 1999 and 1998, result in lower deliveries to AWG by SEECO. However, charges for no-notice service associated with these contracts are approximately \$6.0 million per year and are received by SEECO regardless of weather patterns. Other sales to AWG are made under long-term contracts with flexible pricing provisions.

SEECO's sales to Associated Natural Gas Company (Associated), a division of Arkansas Western which operates natural gas distribution systems in northeast Arkansas and parts of Missouri, were 3.1 Bcf in 1999, 3.6 Bcf in 1998, and 5.7 Bcf in 1997. These deliveries accounted for approximately 47% of Associated's total requirements in 1999, 50% in 1998, and 61% in 1997. In 1998, certain industrial customers of Associated began buying their gas supply directly from producers or marketers. This caused a decline in the percentage of Associated's gas supply provided by SEECO as these volumes were previously purchased by Associated from SEECO and then delivered to their industrial customers. Effective October 1990, SEECO entered into a ten-year contract with Associated to supply a portion of its system requirements at a price to be redetermined annually. For the contract period beginning October 1, 1997, the contract was revised to redetermine the sales price monthly based on an index posting plus a reservation fee. The average price received under the contract was \$2.37 for 1999 and 1998 and \$2.51 in 1997. Prior to the end of the current contract term in 2000, Associated will place its gas supply out for competitive bids. Continued sales of these volumes, and the price of any such sales, could be impacted by the results of the competitive bidding process and by the pending sale of the Company's Missouri assets discussed below in "Natural Gas Distribution."

At present, SEECO's contracts for sales of gas to unaffiliated customers consist of short-term sales made to customers of the utility subsidiary's transportation program and spot sales into markets away from the utility's distribution system. These sales are subject to seasonal price swings. SEECO's sales to unaffiliated customers are also affected by the demand of the utility for production on its gathering system. SEECO's sales to unaffiliated purchasers accounted for approximately 27% of total exploration and production revenues in 1999, 19% in 1998, and 15% in 1997.

The combined gas production of SEPCO and Diamond M was 10.5 Bcf in 1999, compared to 13.2 Bcf in 1998 and 11.7 Bcf in 1997. Oil production was 578 MBbls in 1999, compared to 703 MBbls in 1998 and 749 MBbls in 1997. SEPCO's and Diamond M's gas and oil production is sold under contracts with unaffiliated purchasers which reflect current short-term prices and which are subject to seasonal price swings. SEPCO's and Diamond M's combined gas and oil sales accounted for 42% of total exploration and production revenues in 1999 and 43% in 1998 and 1997.

Competition

All phases of the gas and oil industry are highly competitive. Southwestern competes in the acquisition of properties, the search for and development of reserves, the production and sale of gas and oil and the securing of the labor and equipment required to conduct operations. Southwestern's competitors include major gas and oil companies, other

independent gas and oil concerns and individual producers and operators. Many of these competitors have financial and other resources that substantially exceed those available to Southwestern. Gas and oil producers also compete with other industries that supply energy and fuel.

Competition in the Arkoma Basin has increased in recent years, due largely to the development of improved access to interstate pipelines. Due to the Company's significant leasehold acreage position in the basin and its long-time presence and reputation in this area, the Company believes it will continue to be successful in acquiring new leases in the Arkoma Basin. While improved intrastate and interstate pipeline transportation in the basin should increase the Company's access to markets for its gas production, these markets will generally be served by a number of other suppliers. Thus, the Company will encounter competition that may affect both the price it receives and contract terms it must offer. Outside Arkansas, the Company is less established and faces competition from a larger number of other producers. The Company has in recent years been successful in building its inventory of undeveloped leases and obtaining participating interests in drilling prospects outside Arkansas.

NATURAL GAS DISTRIBUTION

The Company's subsidiary Arkansas Western Gas Company operates integrated natural gas distribution systems concentrated primarily in northern Arkansas and southeast Missouri. The Arkansas Public Service Commission and the Missouri Public Service Commission (MPSC) regulate the Company's utility rates and operations. The Company serves approximately 181,000 customers and obtains a substantial portion of the gas they consume through its Arkoma Basin gathering facilities.

Arkansas Western consists of two operating divisions. The AWG division gathers natural gas in the Arkansas River Valley of western Arkansas and transports the gas through its own transmission and distribution systems, ultimately delivering it at retail to approximately 112,000 customers in northwest Arkansas. The Associated division receives its gas from interstate pipelines and delivers the gas through its own transmission and distribution systems, ultimately delivering it at retail to approximately 21,000 customers in northeast Arkansas and 48,000 customers in Missouri. Associated, formerly a wholly-owned subsidiary of Arkansas Power and Light Company, was acquired and merged into Arkansas Western effective June 1, 1988.

In October 1999, the Company entered into an agreement to sell its Missouri utility operations to Atmos Energy for \$32.0 million. The transaction is currently awaiting approval by the MPSC and Federal Energy Regulatory Commission (FERC). Once approval is obtained and the transaction is closed, the Company will serve a total of approximately 133,000 customers in northern Arkansas. The transaction is expected to be closed before mid-year 2000.

Gas Purchases and Supply

AWG purchases its system gas supply through a competitive bidding process implemented in late 1998, as discussed above, and directly at the wellhead under long-term contracts. SEECO furnished approximately 37% of AWG's system requirements in 1999, 59% in 1998, and 64% in 1997. AWG also purchases gas from unaffiliated producers under take-or-pay contracts. Currently, the Company believes that it does not have a significant exposure to take-or-pay liabilities resulting from these contracts. The Company expects to be able to continue to satisfactorily manage its exposure to take-or-pay liabilities.

Associated purchases gas for its system supply from unaffiliated suppliers accessed by interstate pipelines and from affiliates. Purchases from SEECO are under a ten-year contract with annual price redeterminations. Purchases from unaffiliated suppliers are under firm contracts with terms between one and three years. The rates charged by most suppliers include demand components to ensure availability of gas supply, administrative fees, and a commodity component which is based on monthly indexed market prices. Associated's gas purchases are transported through eight pipelines. The pipeline transportation rates include demand charges to reserve pipeline capacity and commodity charges based on volumes transported. Associated has also contracted with five interstate pipelines for storage capacity to meet its peak seasonal demands. These contracts involve demand charges based on the maximum deliverability, capacity charges based on the maximum storage quantity, and charges for the quantities injected and withdrawn.

AWG has no restriction on adding new residential or commercial customers and will supply new industrial customers that are compatible with the scale of its facilities. AWG has never denied service to new customers within its service area or experienced curtailments because of supply constraints. In addition, Associated has never denied service to new customers within its service area or experienced curtailments because of supply constraints since the acquisition date. Curtailment of large industrial customers of AWG and Associated occurs only infrequently when extremely cold weather requires that systems be dedicated exclusively to human needs customers.

Markets and Customers

The utility continues to capitalize on the healthy economies and sustained customer growth found in its service territory. AWG and Associated provide natural gas to approximately 159,000 residential, 22,000 commercial, and 300 industrial customers, while also providing gas transportation services to approximately 50 end-use and off-system customers. Total gas throughput during 1999 was 36.3 Bcf, compared to 32.8 Bcf in 1998, and 37.0 in 1997. The increase during 1999 was the result of higher off-system transportation volumes. Off-system transportation volumes were 4.8 Bcf in 1999, compared to 1.1 Bcf transported in 1998, and 2.8 Bcf transported in 1997.

Residential and Commercial. Approximately 84% of the utility's revenues are from residential and commercial markets. Residential and commercial customers combined accounted for 51% of total gas throughput for the gas distribution segment in 1999, compared to 57% in 1998 and 1997. Gas volumes sold to residential customers were 10.8 Bcf, down from 11.1 Bcf sold in 1998, and 12.6 Bcf sold in 1997. Gas sold to commercial customers totaled 7.6 Bcf in 1999 and 1998 and 8.4 Bcf in 1997. The decrease in residential gas volumes sold in 1999 was due to record warm weather. Weather during the calendar year was 21% warmer than normal and 8% warmer than in 1998.

The gas heating load is one of the most significant uses of natural gas and is sensitive to outside temperatures. Sales, therefore, vary throughout the year. Profits, however, have become less sensitive to fluctuations in temperature as tariffs implemented in Arkansas contain a weather normalization clause to lessen the impact of revenue increases and decreases which might result from weather variations during the winter heating season.

Industrial and End-use Transportation. Deliveries to industrial customers, which are generally smaller concerns using gas for plant heating or product processing, accounted for 13.1 Bcf in gas deliveries in 1999, 13.0 Bcf in 1998, and 13.2 Bcf in 1997. No industrial customer accounts for more than 5% of Arkansas Western's total throughput.

Both AWG and Associated offer a transportation service that allows larger business customers to obtain their own gas supplies directly from other suppliers. A total of 40 customers are currently using the Arkansas transportation service, including AWG's 15 largest customers in northwest Arkansas. Associated's four largest customers in northeast Arkansas and seven of Associated's 11 largest Missouri customers are currently using transportation service.

Competition

AWG and Associated have experienced a general trend in recent years toward lower rates of usage among their customers, largely as a result of conservation efforts that the Company encourages. Competition is increasingly being experienced from alternative fuels, primarily electricity, fuel oil, and propane. A significant amount of fuel switching has not been experienced, though, as natural gas is generally the least expensive, most readily available fuel in the service territories of AWG and Associated.

The competition from alternative fuels and, in a limited number of cases, alternative sources of natural gas have intensified in recent years. Industrial customers are most likely to consider utilization of these alternatives, as they are less readily available to commercial and residential customers. In an effort to provide some pricing alternatives to its large industrial customers with relatively stable loads, AWG offers an optional tariff to its larger business customers and to any other large business customer which shows that it has an alternate source of fuel at a lower price or that one of its direct competitors has access to cheaper sources of energy. This optional tariff enables those customers willing to accept the risk of price and supply volatility to direct AWG to obtain a certain percentage of their gas requirements in the spot market. Participating customers continue to pay the non-gas cost of service included in AWG's present tariff for large business customers and agree to reimburse AWG for any take-or-pay liability caused by spot market purchases on the customers' behalf.

Regulation

The Company's utility rates and operations are regulated by the APSC and MPSC. In Arkansas, the Company operates through municipal franchises that are perpetual by state law. These franchises, however, are not exclusive within a geographic area. In Missouri, the Company operates through municipal franchises with various terms of existence.

As the regulatory focus of the natural gas industry shifts from the federal level to the state level, utilities across the nation are being required to unbundle their sales services from transportation services in an effort to promote greater competition. Although no such legislation or regulatory directives related to natural gas are presently pending in Arkansas or Missouri, the Company is aggressively controlling costs and constantly reviewing issues such as system capacity and reliability, obligation to serve, rate design, and stranded or transition costs.

In Arkansas, the state legislature recently passed legislation that will deregulate the retail sale of electricity in Arkansas as soon as 2002. The Company is unable to predict the precise impact of any such legislation on its utility operations. The Company's utility subsidiary has historically maintained a substantial price advantage over electricity for most applications. However, when retail electric competition is implemented in Arkansas, it is possible that some portion of this price advantage may be lost in some markets. As described in the paragraph above, the Company is taking steps to preserve its competitive advantage over alternative energy sources, including electricity. When electric deregulation occurs in Arkansas, legislative or regulatory precedents may be set that will also affect natural gas utilities in the future. These issues may include further unbundling of services and the regulatory treatment of stranded costs.

Gas distribution revenues in future years will be impacted by the sale of the Company's Missouri assets and by customer growth and rate increases allowed by regulatory commissions. In recent years, AWG has experienced customer growth of approximately 2% to 3% annually, while Associated has experienced customer growth of approximately 1% or less annually. Based on current economic conditions in the Company's service territories, the Company expects this trend in customer growth to continue.

In December 1996, AWG received approval from the APSC for a rate increase of \$5.1 million annually. The December 1996 rate increase order issued by the APSC also provided that AWG cause to be filed with the APSC an independent study of its procedures for allocating costs between regulated and non-regulated operations, its staffing levels and executive compensation. The independent study was ordered by the APSC to address issues raised by the Office of the Attorney General of the State of Arkansas. The study was conducted in 1999 with a final report issued in December 1999. The report found the Company's costs to be reasonable in all categories and did not recommend any changes to the rates currently in effect.

The Company received approvals in December 1997 from the APSC and the MPSC for rate increases and tariff changes for Associated which will allow the utility to collect an additional \$3.0 million annually. Of the \$3.0 million increase, approximately \$2.0 million is in the form of base rate increases and \$1.0 million is related to the increased cost of service of the Company's gathering plant which is recovered through either the purchased gas adjustment clause or through direct charges to transportation customers. Rate increase requests that may be filed in the future will depend on customer growth, increases in operating expenses, and additional investments in property, plant and equipment. AWG's rates for gas delivered to its retail customers are not regulated by the FERC, but its transmission and gathering pipeline systems are subject to the FERC's regulations concerning open access transportation since AWG accepted a blanket transportation certificate in connection with its merger with Associated.

In May 1999, the Staff of the APSC initiated a proceeding in which it sought an annual reduction of approximately \$2.3 million in the rates AWG charges its customers in northwest Arkansas. Staff's position was based on various adjustments to the utility's rate base, operating expenses, capital structure and rate of return. A large portion of the proposed reduction was based on a downward adjustment to the utility's current return on equity authorized by the APSC in 1996. During the third quarter of 1999, the Company reached agreement with the Staff and the APSC to resolve this issue and to close several other open dockets. In the settlement agreement, the Company agreed to reduce its rates collected from customers on a prospective basis in the amount of \$1.4 million annually, effective December 1, 1999. The agreement also includes the resolution of a proceeding initiated in December 1998 by the Staff of the APSC where the Staff had recommended the disallowance of approximately \$3.1 million of gas supply costs. As part of the settlement, this docket was closed with no negative adjustment to the Company.

MARKETING AND TRANSPORTATION

Gas Marketing

The marketing group was formed in mid-1996 to better enable the Company to capture downstream opportunities which arise through marketing and transportation activity. Through utilization of Southwestern's existing asset base, the group's focus is to create and capture value beyond the wellhead. The merger of the NOARK Pipeline with the Ozark Gas Transmission System discussed below is expected to afford greater supply and market opportunities, allowing the group to expand its marketing operations in Oklahoma.

The Company's marketing operations include the marketing of Southwestern's own gas production and third-party natural gas. Operating income for this segment was \$2.1 million in 1999, compared to \$1.8 million in 1998 and \$1.3 million in 1997. The segment marketed 63.1 Bcf of natural gas in 1999, compared to 49.6 Bcf in 1998 and 36.2 Bcf in 1997. Of the total volumes marketed, purchases from the Company's exploration and production subsidiaries accounted for 31% in 1999, 25% in 1998, and 23% in 1997.

NOARK Pipeline

At December 31, 1999, the Company held a 25% general partnership interest in NOARK. NOARK Pipeline was a 258-mile long intrastate natural gas transmission system that originated in western Arkansas and terminated in northeast Arkansas, crossing three major interstate pipelines and interconnecting with the Company's distribution systems. NOARK Pipeline was completed and placed in service in 1992 and has been operating below capacity and generating losses since it was placed in service. The Company's share of the pretax loss from operations related to its NOARK investment was \$2.0 million in 1999, \$3.1 million in 1998, and \$4.5 million in 1997.

In January 1998, the Company entered into an agreement with Enogex Inc. (Enogex), a subsidiary of OGE Energy Corp., to expand NOARK Pipeline and provide access to Oklahoma gas supplies through an integration of NOARK Pipeline with the Ozark Gas Transmission System (Ozark). Ozark was a 437-mile interstate pipeline system that began in eastern Oklahoma and terminated in eastern Arkansas. On July 1, 1998, the FERC authorized the operation and integration of Ozark and NOARK Pipeline as a single, integrated pipeline. The FERC order also authorized the purchase of Ozark by a subsidiary of Enogex and the construction of integration facilities. Enogex acquired Ozark and contributed the pipeline system to the NOARK partnership and also acquired the NOARK partnership interests not held by Southwestern. Enogex funded the acquisition of Ozark and the expansion and integration with NOARK Pipeline which resulted in the Company's interest in the partnership decreasing to 25% with Enogex owning a 75% interest. There are also provisions in the agreement with Enogex which allow for future revenue allocations to the Company above its 25% partnership interest if certain minimum throughput and revenue assumptions are not met.

The merged pipeline system now has greater access to major gas producing fields in Oklahoma. With access to greater regional production, Southwestern expects the pipeline's additional throughput to create new marketing and transportation opportunities and reduce the losses experienced on the project in the past. The merged pipeline also provides the Company's utility systems with additional access to gas supply.

The new integrated system, known as Ozark Pipeline, became operational November 1, 1998, and includes 749 miles of pipeline with a total throughput capacity of 330 MMcfd. Deliveries are currently being made by the integrated pipeline to portions of AWG's distribution system, to Associated, and to the interstate pipelines with which it interconnects. Before the integration with Ozark, NOARK Pipeline had an average daily throughput of 27.3 MMcfd in 1998 and 39.8 MMcfd in 1997. For 1999, Ozark Pipeline had an average daily throughput of 167.5 MMcfd. At December 31, 1999, AWG had transportation contracts with Ozark Pipeline for 82.3 MMcfd of firm capacity. These contracts expire in 2002 and 2003 and are renewable annually thereafter until terminated with 180 days' notice.

Competition

The Company's gas marketing activities are in competition with numerous other companies offering the same services, many of which possess larger financial and other resources than those of Southwestern. Some of these competitors are affiliates of companies with extensive pipeline systems that are used for transportation from producers to end-users. Other factors affecting competition are cost and availability of alternative fuels, level of consumer demand, and cost of and proximity of pipelines and other transportation facilities. The Company believes that its ability to effectively compete within the marketing segment in the future depends upon establishing and maintaining strong relationships with producers and end-users.

NOARK Pipeline previously competed with two interstate pipelines, one of which was the Ozark system, to obtain gas supplies for transportation to other markets. Because of the available transportation capacity in the Arkansas portion

of the Arkoma Basin, competition had been strong and had resulted in NOARK Pipeline transporting gas for third parties at rates below the maximum tariffs presently allowed. The integration with Ozark provides increased supplies to transport to both local markets and markets served by the three major interstate pipelines that Ozark Pipeline connects with in eastern Arkansas. As discussed below under "Regulation," FERC's Order No. 636 has generally increased competition in the transportation segment as end-users are now acquiring their own supplies and independently arranging for the transportation of those supplies. The Company believes that Ozark Pipeline will provide the additional supplies necessary to compete more effectively for the transportation of natural gas to end-users and markets served by the interstate pipelines.

Regulation

Since the mid-1980's, the FERC has issued a series of orders, culminating in Order No. 636 in April 1992, that have altered the marketing and transportation of natural gas. Order No. 636 required interstate natural gas pipelines to "unbundle," or segregate, the sales, transportation, storage and other components of their existing sales services, and to separately state the rates for each of the unbundled services. Order No. 636 and subsequent FERC orders issued in individual pipeline proceedings have been the subject of appeals, the results of which have generally been supportive of the FERC's open access policy. Generally, Order No. 636 has eliminated or substantially reduced the interstate pipelines' roles as wholesalers of natural gas and has substantially increased competition in natural gas markets.

Prior to the integration with Ozark, the operations of NOARK Pipeline were regulated by the APSC. The APSC had established a maximum transportation rate of approximately \$.285 per dekatherm. The integration of NOARK Pipeline with Ozark resulted in an interstate pipeline system subject to FERC regulations and FERC approved tariffs. The APSC no longer has jurisdiction over NOARK Pipeline's transportation rates and services. The FERC has initially set the maximum transportation rate of Ozark Pipeline at \$.2455 per dekatherm.

OTHER ITEMS

Environmental Matters

The Company's operations are subject to extensive federal, state and local laws and regulations, including the Comprehensive Environmental Response, Compensation and Liability Act, the Clean Water Act, the Clean Air Act and similar state statutes. These laws and regulations require permits for drilling wells and the maintenance of bonding requirements in order to drill or operate wells and also regulate the spacing and location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, the plugging and abandoning of wells, the prevention and cleanup of pollutants and other matters. Southwestern maintains insurance against costs of clean-up operations, but is not fully insured against all such risks.

Compliance with environmental laws and regulations has had no material effect on Southwestern's capital expenditures, earnings, or competitive position. Although future environmental obligations are not expected to have a material impact on the results of operations or financial condition of the Company, there can be no assurance that future developments, such as increasingly stringent environmental laws or enforcement thereof, will not cause the Company to incur material environmental liabilities or costs.

Real Estate Development

A. W. Realty Company (AWR) owns an interest in approximately 155 acres of real estate, most of which is undeveloped. AWR's real estate development activities are concentrated on a 130-acre tract of land located near the Company's headquarters in a growing part of Fayetteville, Arkansas. The Company has owned an interest in this land for many years. The property is zoned for commercial, office, and multi-family residential development. AWR continues to review

with a joint venture partner various options for developing this property that would minimize the Company's initial capital expenditures, but still enable it to retain an interest in any appreciation in value. This activity, however, does not represent a significant portion of the Company's business.

Employees

At December 31, 1999, the Company had 686 employees, 97 of whom are represented under a collective bargaining agreement. The Company believes that its relations with its employees are good.

ITEM 2. PROPERTIES

For additional information about the Company's gas and oil operations refer to Notes 5 and 6 to the financial statements in Item 8 ("Financial Statements and Supplementary Data"). For information concerning capital expenditures, refer to page 32 ("Capital Expenditures" section of Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations"). Also refer to Item 6 ("Selected Financial Data") for information concerning gas and oil produced.

The following table provides information concerning miles of pipe of the Company's gas distribution systems. For a further description of Arkansas Western's properties, see discussion under Item 1 ("Business").

	AWG	Associated	Total

Gathering	388	-	388
Transmission	805	608	1,413
Distribution	3,123	1,697	4,820

	4,316	2,305	6,621
=====			

The following information is provided to supplement that presented in Item 8. For a further description of Southwestern's oil and gas properties, see the discussion under Item 1.

Leasehold Acreage

	Undeveloped		Developed	
	Gross	Net	Gross	Net

Arkoma	100,540	89,035	189,823	
142,607				
Mid-Continent	61,634	27,127	104,015	
43,944				
Permian	120,137	22,390	139,101	
20,400				
Gulf Coast	38,240	19,385	56,226	
19,770				

	320,551	157,937	489,165	
226,721				
=====				

Producing Wells

	Gas		Oil		Total	
	Gross	Net	Gross	Net	Gross	Net
Arkoma	794	383.4	-	-	794	383.4
Mid-Continent	242	100.7	557	182.4	799	283.1
Permian	75	11.1	219	132.3	294	143.4
Gulf Coast	56	22.1	21	16.0	77	38.1
	1,167	517.3	797	330.7	1,964	848.0

Wells Drilled During the Year

Year	Exploratory					
	Productive Wells		Dry Holes		Total	
	Gross	Net	Gross	Net	Gross	Net
1999	4.0	1.5	4.0	1.6	8.0	3.1
1998	3.0	.5	10.0	3.9	13.0	4.4
1997	2.0	1.3	4.0	3.0	6.0	4.3

Year	Development					
	Productive Wells		Dry Holes		Total	
	Gross	Net	Gross	Net	Gross	Net
1999	47.0	18.3	15.0	6.1	62.0	24.4
1998	72.0	29.4	10.0	6.4	82.0	35.8
1997	58.0	27.5	24.0	13.5	82.0	41.0

Wells in Progress as of December 31, 1999

Net	Gross

Exploratory	2.0
0.6	
Development	10.0
2.0	

Total	12.0
2.6	
=====	

During 1999, Southwestern was required to file Form 23, "Annual Survey of Domestic Oil and Gas Reserves" with the Department of Energy. The basis for reporting reserves on Form 23 is not comparable to the reserve data included in Note 6 to the financial statements in Item 8. The primary differences are that Form 23 reports gross reserves, including the royalty owners' share, and includes reserves for only those properties where the Company is the operator.

ITEM 3. LEGAL PROCEEDINGS

In May 1996, a class action suit was filed against the Company on behalf of royalty owners alleging improprieties in the disbursements of royalty proceeds. A trial was held on the class action suit beginning in late September 1998 that resulted in a verdict against the Company and two of its wholly-owned subsidiaries, SEECO, Inc. and Arkansas Western Gas Company, in the amount of \$62.1 million. The trial judge subsequently awarded pre-judgment interest in an amount of \$31.1 million, and post-judgment interest accrued from the date of the judgment at the rate of 10% per annum simple interest. The Company has been required by the state court to post a judgment bond which now stands at \$109.3 million (verdict amount plus pre-judgment interest and 20 months of post-judgment interest) in order to stay the jury's verdict and proceed with an appeal process. The bond was placed by a surety company and was collateralized by unsecured letters of credit.

The verdict was returned following a trial on the issues of the class action lawsuit brought by certain royalty owners of SEECO, Inc., who contend that since 1979 the defendants breached implied covenants in certain oil and gas leases, misrepresented or failed to disclose material facts to royalty owners concerning gas purchase contracts between the Company's subsidiaries, and failed to fulfill other alleged common law duties to the members of the royalty owner plaintiff class. The litigation was commenced in May 1996 and was disclosed by the Company at that time.

The Company believes that the jury's verdict was wrong as a matter of law and fact and that incorrect rulings by the trial judge (including evidentiary rulings and prejudicial jury instructions) provide significant grounds for a successful appeal. The Company had asked the trial judge to recuse himself due to his apparent bias toward the plaintiffs and had also filed a motion with the trial court for judgment notwithstanding the verdict or, in the alternative, for a new trial. These motions were denied. The Company has filed and will vigorously prosecute an appeal in the Arkansas Supreme Court. Based on discussion with outside legal counsel, management of the Company remains confident that the jury's verdict will be overturned and the case remanded for a new trial. If the Company is not successful in its appeal from the jury verdict, the Company's financial condition and results of operations would be materially and adversely affected. However, management believes that the Company's ultimate liability, if any, resulting from this case will not be material to its financial position, but in any one year could be significant to the results of operations. At December 31, 1999 and 1998, no amounts had been accrued on this matter.

In its Form 8-K filed July 2, 1996, the Company disclosed that a lawsuit relating to overriding royalty interests in certain Arkansas oil and gas properties had been filed against it and two of its wholly owned subsidiaries. The lawsuit, which was brought by a party who was originally included in (but opted out of) the class action litigation described above, involves claims similar to those upon which judgment was rendered against the Company and its subsidiaries. In September 1998, another party who opted out of the class threatened the Company with similar litigation. While the amounts of these pending and threatened claims could be significant, management believes, based on its extensive investigations and trial preparation, that these claims are without merit and, that the Company's ultimate liability, if any, will not be material to its consolidated financial position or results of operations. This matter went to a non-jury trial as to liability on January 10, 2000 and the Company is awaiting the court's ruling.

The United States Minerals Management Service (MMS), a federal agency responsible for the administration of federal oil and gas leases, is investigating the Company and its subsidiaries in respect of claims similar to those in the class action litigation. MMS was included in the class action litigation against its objections, but has not pursued further action to remove itself from the class. If MMS does remove itself from the class, its claims may be brought separately

under federal statutes that provide for treble damages and civil penalties. In such event, the Company believes it would have defenses that were not available in the class action litigation. While the aggregate amount of MMS's claims could be significant, management believes, based on its investigations, that the Company's ultimate liability, if any, will not be material to its consolidated financial position or results of operations.

As previously reported, the Company's subsidiary, SEPCO, filed suit in 1997 against several parties, including an outside consultant previously employed by SEPCO, alleging breach of contract, fraud, and other causes of action in connection with services performed on SEPCO's south Louisiana exploration projects. On June 23, 1998, the outside consultant filed a counterclaim against SEPCO. In 1999, this matter was settled for an amount that was not material to the Company's consolidated financial position or results of operation.

The Company is subject to laws and regulations relating to the protection of the environment. The Company's policy is to accrue environmental and cleanup related costs of a non-capital nature when it is both probable that a liability has been incurred and when the amount can be reasonably estimated. Management believes any future remediation or other compliance related costs will not have a material effect on the financial position or reported results of operations of the Company.

The Company is subject to other litigation and claims that have arisen in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, the results of such litigation and claims will not have a material effect on the results of operations or the financial position of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of the fiscal year ended December 31, 1999, to a vote of security holders, through the solicitation of proxies or otherwise.

Executive Officers of the Registrant

Name	Officer Position	Age	Years Served as Officer
Harold M. Korell	President, Chief Executive Officer and Director	55	3
Alan H. Stevens	President and Chief Operating Officer, Southwestern Energy Production Company and SEECO, Inc.	55	2
Greg D. Kerley	Executive Vice President and Chief Financial Officer	44	10
George A. Taaffe, Jr.	Senior Vice President and General Counsel, Secretary	53	1
Debbie J. Branch	Senior Vice President, Southwestern Energy Services Company	48	4
Charles V. Stevens	Senior Vice President, Arkansas Western Gas Company	50	11

Mr. Korell was appointed President in October 1998 and assumed the position of Chief Executive Officer on January 1, 1999. He joined the Company in 1997 as Executive Vice President and Chief Operating Officer. From 1992 to 1997, he was employed by American Exploration Company where he was most recently Senior Vice President - Operations. From 1990 to 1992, he was Executive Vice President of McCormick Resources and from 1973 to 1989, he held various positions with Tenneco Oil Company, including Vice President, Production.

Mr. Alan Stevens was appointed to his present position in December 1999. He joined the Company in January 1998 as Senior Vice President of Southwestern Energy Production Company and SEECO, Inc. Prior to joining the Company, he was President and Chief Operating Officer for Petsec Energy during 1997 and was employed by Occidental Petroleum Company from 1989 to 1997 where he was most recently Vice President of Worldwide Exploration.

Mr. Kerley was appointed to his present position in December 1999. Previously, he served as Senior Vice President and Chief Financial Officer since July 1998, Senior Vice President - Treasurer and Secretary from 1997 to 1998, Vice President - Treasurer and Secretary from 1992 to 1997, and Controller from 1990 to 1992. Mr. Kerley also served as the Chief Accounting Officer from 1990 to 1998.

Mr. Taaffe joined the Company in his current position in July 1999. Prior to joining the Company, he served as Vice President and Assistant General Counsel for Consolidated Natural Gas Company from 1988 to 1999 and Associated General Counsel for Joy Technologies from 1973 to 1987.

Ms. Branch joined the Company in her present position in 1996. Prior to joining the Company, she was Executive Vice President of Stalwart Energy Company from 1994 to 1996 and founder and President of Vesta Energy Company from 1983 to 1993.

Mr. Charles Stevens has served the Company in his present position since December 1997. Previously, he served as Vice President of Arkansas Western Gas Company from 1988 to 1997.

All officers are elected at the Annual Meeting of the Board of Directors for one-year terms or until their successors are duly elected. There are no arrangements between any officer and any other person pursuant to which he or she was selected as an officer. There is no family relationship between any of the named executive officers or between any of them and the Company's directors.

Part II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the New York Stock Exchange under the symbol "SWN." At December 31, 1999, the Company had 2,268 shareholders of record. The following prices represent closing market transactions on the New York Stock Exchange.

Paid Quarter Ended -----	Range of Market Prices				Cash Dividends	
	1999		1998		1999	1998

March 31	\$ 8.44	\$5.31	\$12.94	\$10.63	\$.06	\$.06
June 30	\$10.56	\$6.06	\$12.00	\$ 8.75	\$.06	\$.06
September 30	\$10.94	\$7.50	\$10.38	\$ 6.75	\$.06	\$.06
December 31	\$ 9.19	\$5.63	\$ 8.50	\$ 5.50	\$.06	\$.06

The terms of certain of the Company's long-term debt instruments and agreements impose restrictions on the payment of cash dividends. These covenants generally limit the payment of dividends in a fiscal year to the total of net income plus \$20.0 million less dividends paid and purchases, redemptions or retirements of capital stock during the period since January 1, 1990. At December 31, 1999, \$96.4 million of retained earnings was available for payment as cash dividends. Dividends totaling \$6.0 million were paid during 1999.

The Company paid dividends at an annual rate of \$.24 per share in 1999 and 1998. While the Board of Directors intends to continue the practice of paying dividends quarterly, amounts and dates of such dividends as may be declared will necessarily be dependent upon the Company's future earnings and capital requirements.

ITEM 6. SELECTED FINANCIAL DATA

	1999	1998	1997	1996	1995	1994
Financial Review (in thousands)						
Operating revenues						
Exploration and production	\$ 75,039	\$ 86,232	\$100,129	\$ 86,978	\$ 63,285	\$ 79,787
Gas distribution	132,420	134,711	154,155	142,730	119,452	126,667
Energy services and other	137,942	97,795	83,511	30,636	31,622	29,225
Intersegment revenues	(65,005)	(52,433)	(61,606)	(57,004)	(47,534)	(60,055)
	280,396	266,305	276,189	203,340	166,825	175,624
Operating costs and expenses						
Gas purchases - utility	45,370	39,863	46,806	42,851	37,133	36,395
Gas purchases - marketing	92,851	73,235	63,054	14,114	13,714	5,438
Operating and general	57,957	61,915	59,167	50,509	44,436	42,506
Depreciation, depletion and amortization	41,603	46,917	48,208	42,394	35,992	35,546
Write-down of oil and gas properties	-	66,383	-	-	-	-
Taxes, other than income taxes	6,557	6,943	7,018	5,476	4,362	3,657
	244,338	295,256	224,253	155,344	135,637	123,542
Operating income	36,058	(28,951)	51,936	47,996	31,188	52,082
Interest expense, net	(17,351)	(17,186)	(16,414)	(13,044)	(11,167)	(8,867)
Other income (expense)	(2,331)	(3,956)	(5,017)	(4,015)	(1,227)	(2,362)
Income before income taxes and extraordinary item	16,376	(50,093)	30,505	30,937	18,794	40,853
Income taxes:						
Current	537	(6,029)	(732)	(5,569)	(4,908)	9,288
Deferred	5,912	(13,467)	12,522	17,320	12,167	6,441
	6,449	(19,496)	11,790	11,751	7,259	15,729
Income before extraordinary item	9,927	(30,597)	18,715	19,186	11,535	25,124
Extraordinary item	-	-	-	-	(295)	-
Net income	\$ 9,927	\$(30,597)	\$ 18,715	\$ 19,186	\$ 11,240	\$ 25,124
Cash flow from operations, net of working capital changes (in thousands)						
	\$ 58,131	\$ 93,708	\$ 79,483	\$ 71,830	\$ 56,177	\$ 66,857
Return on equity	5.21%	n/a	8.45%	9.23%	5.78%	12.35%
Common Stock Statistics						
Basic earnings per share before extraordinary item						
	\$.40	\$(1.23)	\$.76	\$.78	\$.46	\$.98
Basic and diluted earnings per share						
	\$.40	\$(1.23)	\$.76	\$.78	\$.45	\$.98
Cash dividends declared and paid per share						
	\$.24	\$.24	\$.24	\$.24	\$.24	\$.24
Book value per share						
	\$7.60	\$7.45	\$8.92	\$8.41	\$7.87	\$7.92
Market price at year-end						
	\$6.56	\$7.50	\$12.88	\$15.13	\$12.75	\$14.88
Number of shareholders of record at year-end						
	2,268	2,333	2,379	2,572	2,759	2,875
Average shares outstanding						
	24,941,550	24,882,170	24,738,882	24,705,256	25,130,781	25,684,110

	1999	1998	1997	1996	1995	1994
Capitalization (in thousands)						
Total debt, including current portion	\$302,200	\$283,436	\$299,543	\$278,285	\$210,828	\$142,300
Common shareholders' equity	190,356	185,856	221,565	207,941	194,504	203,456
Total capitalization	\$492,556	\$469,292	\$521,108	\$486,226	\$405,332	\$345,756
Total assets	\$671,446	\$647,620	\$710,866	\$660,190	\$569,093	\$486,074
Capitalization ratios:						
Debt (excluding current portion of long-term)	61.35%	60.27%	57.23%	56.96%	51.65%	40.10%
Equity	38.65%	39.73%	42.77%	43.04%	48.35%	59.90%
Capital Expenditures (in millions)						
Exploration and production	\$59.0	\$52.4	\$73.5	\$110.3	\$ 82.2	\$55.4
Gas distribution	7.1	10.1	12.6	12.8	18.5	17.6
Other	.9	1.9	2.7	1.8	.9	3.9
	\$67.0	\$64.4	\$88.8	\$124.9	\$101.6	\$76.9
Exploration and Production						
Natural gas:						
Production, Bcf	29.4	32.7	33.4	34.8	34.5	37.7
Average price per Mcf	\$2.21	\$2.34	\$2.57	\$2.26	\$1.72	\$2.04
Oil:						
Production, MBbls	578	703	749	391	229	200
Average price per barrel	\$17.11	\$13.60	\$19.02	\$21.21	\$17.15	\$15.89
Total gas and oil production, Bcfe	32.9	36.9	37.9	37.1	35.9	38.9
Average production (lifting) cost per Mcf equivalent	\$.44	\$.43	\$.45	\$.29	\$.22	\$.17
Proved reserves at year-end:						
Natural gas, Bcf	307.5	303.7	291.4	297.5	294.9	316.1
Oil, MBbls	7,859	6,850	7,852	8,238	2,152	1,231
Total reserves, Bcf equivalent	354.7	344.8	338.5	346.9	307.8	323.5
Gas Distribution						
Sales and transportation volumes, Bcf:						
Residential	10.8	11.1	12.6	13.4	12.1	11.6
Commercial	7.6	7.6	8.4	8.8	7.6	7.2
Industrial	3.5	4.2	6.6	7.7	7.7	7.5
End-use transportation	9.6	8.8	6.6	5.5	5.2	4.8
	31.5	31.7	34.2	35.4	32.6	31.1
Off-system transportation	4.8	1.1	2.8	3.6	9.8	10.7
	36.3	32.8	37.0	39.0	42.4	41.8
Customers - year-end						
Residential	158,606	156,384	154,864	151,880	147,267	144,486
Commercial	21,929	22,229	21,431	20,845	20,109	19,489
Industrial	290	303	311	326	340	348
	180,825	178,916	176,606	173,051	167,716	164,323
Degree days						
Degree days	3,179%	3,472%	4,131%	4,341%	4,064%	3,823%
Percent of normal	79	87	103	108	102	96

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the information contained in the financial statements and the notes thereto included in Item 8 of this report and with the discussion below on "Forward-Looking Information." Certain reclassifications have been made to the prior years' financial statements to conform with the 1999 presentation. These reclassifications had no effect on previously reported net income.

RESULTS OF OPERATIONS

The Company reported net income of \$9.9 million, or \$.40 per share, for 1999, compared to a net loss of \$30.6 million, or \$1.23 per share, for 1998 and net income of \$18.7 million, or \$.76 per share, in 1997. The loss for 1998 reflects the impact of an after-tax, non-cash ceiling test write-down of the Company's oil and gas properties of \$40.5 million, or \$1.63 per share. Excluding the non-cash charge, the Company would have recognized net income of \$9.9 million, or \$.40 per share in 1998. Results for 1999 reflect decreased oil and gas production and the effects of record warm weather offset by lower operating and general expenses and lower depreciation, depletion and amortization expense. During 1998 earnings were negatively impacted by lower wellhead prices for both oil and gas and by unseasonably warm weather. Revenues and operating income for the Company's major business segments are shown in the following table.

	1999	1998	1997

(in thousands)			
Revenues			
Exploration and production	\$ 75,039	\$ 86,232	\$100,129
Gas distribution	132,420	134,711	154,155
Marketing	137,526	97,175	82,807
Other	416	620	704
Eliminations	(65,005)	(52,433)	
(61,606)			
	-----	-----	-----
	\$280,396	\$266,305	\$276,189
	=====		
Operating Income			
Exploration and production	\$ 16,451	\$(47,273) (1)	\$ 33,303
Gas distribution	17,187	16,029	16,941
Marketing	2,142	1,800	1,315
Other	278	493	377
	-----	-----	-----
	\$ 36,058	\$(28,951)	\$ 51,936
	=====		

(1) Includes a \$66.4 million pre-tax write-down of oil and gas properties.

Exploration and Production

The Company's exploration and production revenues decreased 13% in 1999 and 14% in 1998. The decrease in 1999 was due to lower volumes of oil and gas produced and a lower average gas price received while the decrease in 1998 was due primarily to lower average oil and gas prices.

Operating income of the exploration and production segment was \$16.5 million in 1999, compared to \$19.1 million in 1998 excluding the impact of the non-cash write-down of oil and gas properties, and \$33.3 million in 1997. The decrease in 1999 was due primarily to an 11% decrease in equivalent oil and gas production volumes. The decrease in 1998 was primarily due to lower average gas and oil prices, which were down 9% and 28%, respectively, from their levels in 1997.

Gas and oil production totaled 32.9 billion cubic feet equivalent (Bcfe) in 1999, 36.9 Bcfe in 1998 and 37.9 Bcfe in 1997. The decreases in production were due to the combined effects of production declines in the Company's outside operated properties resulting from the industry slowdown that began in 1998, production declines in some of the Company's Gulf Coast properties, and the loss of production from marginal properties that were sold in 1999.

	1999	1998
1997		

Gas Production		
Affiliated sales (Bcf)	8.2	11.3
14.3		
Unaffiliated sales (Bcf)	21.2	21.4
19.1		

	29.4	32.7
33.4		

Average price per Mcf	\$2.21	\$2.34
\$2.57		
=====		
Oil Production		
Unaffiliated sales (MBbls)	578	703
749		

Average price per Bbl	\$17.11	\$13.60
\$19.02		
=====		
Total Production (Bcfe)	32.9	36.9
37.9		
=====		

Gas sales to unaffiliated purchasers were 21.2 Bcf in 1999, down slightly from 21.4 Bcf in 1998 and up from 19.1 Bcf in 1997. Sales to unaffiliated purchasers are primarily made under contracts which reflect current short-term prices and which are subject to seasonal price swings.

Intersegment sales to Arkansas Western Gas Company (AWG), the utility subsidiary which operates the Company's northwest Arkansas utility system, were 5.1 Bcf in 1999, 7.7 Bcf in 1998, and 8.6 Bcf in 1997. Unseasonably warm weather during 1999 and 1998 decreased AWG's demand for the Company's gas supply. The Company's gas production provided approximately 40% of AWG's requirements in 1999, and 60% in 1998 and 1997.

Prior to December 1998, most of the sales to AWG's system were pursuant to an intersegment long-term contract entered into in 1978 with SEECO, Inc. (SEECO) which was amended and restated in 1994 as the result of a settlement between the Company, the Staff of the Arkansas Public Service Commission (APSC) and the office of the Attorney General of the state of Arkansas. The sales price under the amended contract averaged \$2.99 per thousand cubic feet (Mcf) through November of 1998, and \$3.46 per Mcf in 1997.

On October 1, 1998, AWG sent requests for proposals to various suppliers requesting bids on seven different packages of gas supply to be effective December 1, 1998. These bid requests included replacement of the gas supply and no-notice service previously provided by the long-term gas supply contract between AWG and SEECO discussed above.

SEECO along with the Company's marketing subsidiary successfully bid on five of the seven packages with prices based on the Reliant East Index plus a demand charge. Based on normal weather patterns, the volumes of gas projected to be sold under these contracts would be approximately equal to the historical annual volumes sold under the expired long-term contract. However, under the new contracts, the Company supplies most of AWG's no-notice service and less of its routine base requirements than it had under the previous contract. During periods of warmer weather, as in 1999 and 1998, less total gas volumes will be sold to AWG than compared to periods of normal or colder weather. The total premium over the Reliant East Index under these contracts is estimated to be approximately \$1.0 million lower (after tax) than the annual premium earned under the expired long-term contract. The majority of the premium is received through monthly demand charges which will be received regardless of volumes actually delivered. Other sales to AWG are made under long-term contracts with flexible pricing provisions.

The Company's intersegment sales to Associated Natural Gas Company (Associated), a division of AWG which operates the Company's natural gas distribution systems in northeast Arkansas and parts of Missouri, were 3.1 Bcf in 1999, 3.6 Bcf in 1998, and 5.7 Bcf in 1997. Deliveries to Associated decreased in 1999 and 1998 due primarily to corresponding changes in heating weather. Effective October 1990, SEECO entered into a ten-year contract with Associated to supply a portion of its system requirements at a price to be redetermined annually. For the contract period beginning October 1, 1997, the contract was revised to redetermine the sales price monthly based on an index posting plus a reservation fee. The average price received under the contract was \$2.37 for 1999 and 1998 and \$2.51 for 1997. Prior to the end of the current contract term in 2000, Associated will place its gas supply out for competitive bids. Continued sales of these volumes to Associated, and the price of any such sales, will depend on the results of this competitive bidding process. Additionally, future volumes could be impacted by the sale of Associated's Missouri properties as discussed further in the "Gas Distribution" section below.

The overall average price received for the Company's gas production was \$2.21 per Mcf in 1999, \$2.34 per Mcf in 1998, and \$2.57 per Mcf in 1997. The changes in the average price realized primarily reflects changes in average annual spot market prices and the effects of the Company's price hedging activities. The Company's hedging activities lowered the average gas price \$.06 per Mcf in 1999, added \$.19 per Mcf to the average gas price in 1998 and lowered the 1997 average gas price \$.05 per Mcf.

The Company periodically enters into hedging activities with respect to a portion of its projected crude oil and natural gas production through a variety of financial arrangements intended to support oil and gas prices at targeted levels and to minimize the impact of price fluctuations (see Note 8 of the financial statements for additional discussion). The Company's policies prohibit speculation with derivatives and limit swap agreements to counterparties with appropriate credit standings. Disregarding the impact of hedges, the Company expects the average price it receives for its total gas production to be slightly higher than average spot market prices due to the prices it receives under the contracts covering its intersegment sales which are long-term and provide swing services to the Company's utility systems. Future changes in revenues from sales of the Company's gas production will be dependent upon changes in the market price for gas, access to new markets, maintenance of existing markets, and additions of new gas reserves.

The Company expects future increases in its gas production to come primarily from sales to unaffiliated purchasers. The Company is unable to predict changes in the market demand and price for natural gas, including changes which may be induced by the effects of weather on demand of both affiliated and unaffiliated customers for the Company's

production. Additionally, the Company holds a large amount of undeveloped leasehold acreage and producing acreage, and has an inventory of drilling leads, prospects and seismic data which will continue to be developed and evaluated in the future. The Company's exploration programs have been directed primarily toward natural gas in recent years.

Gas Distribution

Gas distribution revenues fluctuate due to the pass-through of gas supply cost changes and due to the effects of weather. Because of the corresponding changes in purchased gas costs, the revenue effect of the pass-through of gas cost changes has not materially affected net income. Gas distribution revenues decreased 2% in 1999 and 13% in 1998 due to the effects of warmer weather. Weather in 1999 was 21% warmer than normal and 8% warmer than the prior year. Weather in 1998 was 13% warmer than normal and 16% warmer than the prior year.

Operating income for Southwestern's utility systems increased 7% in 1999 and decreased 5% in 1998. The increase in 1999 was due to the Company's efforts in reducing operating costs and to customer growth. The decrease in 1998 was due to the effects of warmer weather, partially offset by a \$3.0 million rate increase approved in December 1997 for the Company's northeast Arkansas and Missouri systems, and customer growth.

	1999	1998	1997

Gas Distribution Systems			
Throughput (Bcf)			
Sales volumes	21.9	22.9	27.6
Transportation volumes			
End-use	9.6	8.8	6.6
Off-system	4.8	1.1	2.8
	-----	-----	-----
	36.3	32.8	37.0

Average number of sales customers	177,274	174,642	172,200

Heating weather			
Degree days	3,179	3,472	4,131
Percent of normal	79%	87%	
103%			
Average sales rate per Mcf	\$5.67	\$5.57	\$5.36
	=====		

In 1999, AWG sold 14.5 Bcf to its customers at an average rate of \$5.47 per Mcf, compared to 15.1 Bcf at \$5.37 per Mcf in 1998 and 17.4 Bcf at \$5.34 per Mcf in 1997. Additionally, AWG transported 6.2 Bcf in 1999, 6.0 Bcf in 1998, and 5.0 Bcf in 1997 for its end-use customers. Associated sold 7.4 Bcf to its customers in 1999 at an average rate of \$6.06 per Mcf, compared to 7.8 Bcf in 1998 at \$5.95 per Mcf and 10.2 Bcf at \$5.39 per Mcf in 1997. Associated transported 3.4 Bcf for its end-use customers in 1999, compared to 2.8 Bcf in 1998 and 1.6 Bcf in 1997. The decrease in the combined volumes sold and transported for end-use customers in both 1999 and 1998 for the utility systems resulted from warmer weather, partially offset by customer growth. The fluctuations in the average sales rates reflect changes in the average cost of gas purchased for delivery to the Company's customers, which are passed through to customers under automatic adjustment clauses, and rate increases implemented in 1997.

Total deliveries to industrial customers of AWG and Associated, including transportation volumes, were 13.1 Bcf in 1999, 13.0 Bcf in 1998 and 13.2 Bcf in 1997. AWG also transported 4.8 Bcf of gas through its gathering system in 1999 for off-system deliveries, all to the Ozark Gas Transmission System, compared to 1.1 Bcf in 1998 and 2.8 Bcf in 1997. The increase in off-system deliveries in 1999 was due to decreased on-system demands of the Company's gas distribution systems for the Company's gas production due to warmer than normal heating weather. The average transportation tariff was approximately \$.10 per Mcf, exclusive of fuel, in 1999, \$.11 per Mcf in 1998 and \$.16 per Mcf in 1997.

In October 1999, the Company signed a definitive agreement to sell its Missouri gas distribution assets for \$32.0 million. The net book value of the assets being sold is approximately \$28.0 million. Proceeds from the sale will be used to reduce the Company's outstanding debt. The sale requires regulatory approval and is expected to close in the first half of 2000. After closing, the Company's operating results for its gas distribution segment will be lower reflecting the asset divestiture and the loss of Missouri customers. However, the Company does not expect the sale to have a material negative impact on earnings as the loss in operating income should be primarily offset by a corresponding decrease in interest expense. The Company currently serves approximately 48,000 customers in Missouri. The Company will continue to operate its gas distribution systems in Arkansas where it currently serves approximately 133,000 customers.

Gas distribution revenues in future years will be impacted by the sale of the Company's Missouri assets, customer growth and rate increases allowed by the APSC. In recent years, AWG has experienced customer growth of approximately 2% to 3% annually, while Associated has experienced customer growth of approximately 1% or less annually. Based on current economic conditions in the Company's service territories, the Company expects this trend in customer growth to continue. The Company received approvals in December 1997 from the APSC and the Missouri Public Service Commission (MPSC) for rate increases and tariff changes which allow the utility to collect an additional \$3.0 million annually. Of the \$3.0 million total, approximately \$2.0 million is in the form of base rate increases and \$1.0 million is related to the increased cost of service of the Company's gathering plant which is recovered through either the purchased gas adjustment clause or through direct charges to transportation customers.

In its order approving the Missouri changes, the MPSC further ordered Associated to modify its purchased gas adjustment tariff to remove any specific language referencing recovery of the cost of service of its gathering facilities. The MPSC order provided that Associated should base gathering charges to its customers on competitive market conditions and that it would be allowed recovery from its sales and transportation customers of all prudently incurred gathering costs without reference to its cost of service. The MPSC will review these gathering costs annually as part of its review of Associated's gas costs. Associated believes that the MPSC lacks statutory authority to approve charges which are not based on historical cost of service. Associated appealed this issue to the circuit court which ruled in favor of the MPSC. The Company has appealed the lower court's decision to the Missouri Court of Appeals. The Company intends to bill its ratepayers gas gathering costs based on its cost of service until the matter is resolved. If usage of the Company's gathering system to obtain system gas supply or to source gas delivered to its industrial customers should decrease, then recovery of these gathering costs would decrease as well. Gathering costs have been recovered in this manner from Missouri customers since Associated's 1990 rate case. Prior to the 1997 changes, Associated's gathering costs were recovered from Arkansas customers through its base rates.

Tariffs implemented in Arkansas as a result of rate increases in both 1996 and 1997 contain a weather normalization clause to lessen the impact of revenue increases and decreases which might result from weather variations during the winter heating season. Rate increase requests which may be filed in the future will depend on customer growth, increases in operating expenses, and additional investments in property, plant and equipment. See "Regulatory Matters" below for additional discussion related to the Company's gas distribution segment.

Marketing

Operating income for the marketing segment was \$2.1 million on revenues of \$137.5 million in 1999, compared to \$1.8 million on revenues of \$97.2 million in 1998, and \$1.3 million on revenues of \$82.8 million in 1997. The Company increased its marketing activities when it formed a marketing group in mid-1996 to better enable the Company to capture downstream opportunities which arise through marketing and transportation activity. The Company marketed 63.1 Bcf in 1999, compared to 49.6 Bcf in 1998 and 36.2 Bcf in 1997. The Company enters into hedging activities with respect to its gas marketing activities to provide margin protection (see Note 8 of the financial statements for additional discussion).

NOARK Pipeline

The marketing segment also manages the Company's 25% interest in the NOARK Pipeline System, Limited Partnership (NOARK). The NOARK Pipeline was a 258-mile long intrastate gas transmission system which extended across northern Arkansas, crossing three major interstate pipelines and interconnecting with the Company's distribution systems. The NOARK Pipeline had been operating below capacity and generating losses since it was placed in service in September 1992. The Company's share of the pretax loss from operations included in other income related to its NOARK investment was \$2.0 million in 1999, \$3.1 million in 1998, and \$4.5 million in 1997. The improvement in the 1999 results primarily reflects the benefits of the integration of the NOARK Pipeline System with the Ozark Gas Transmission System. The integration of the two systems was completed in November, 1998. The improvement in the 1998 pretax loss reflects a lower interest rate on NOARK's debt which resulted from a refinancing discussed below in "Liquidity and Capital Resources."

In January 1998, the Company entered into an agreement with Enogex Inc. (Enogex), a subsidiary of OGE Energy Corp., to expand the NOARK system and provide access to Oklahoma gas supplies through an integration of NOARK with the Ozark Gas Transmission System (Ozark). Ozark was a 437-mile interstate pipeline system which began in eastern Oklahoma and terminated in eastern Arkansas. Effective August 1, 1998, Enogex acquired Ozark and contributed the pipeline system to the NOARK partnership. Enogex also acquired the NOARK partnership interests not held by Southwestern. Enogex funded the acquisition of Ozark and the expansion and integration with NOARK which resulted in the Company's interest in the partnership decreasing to 25% with Enogex owning a 75% interest. There are also provisions in the agreement with Enogex which allow for future revenue allocations to the Company above its 25% partnership interest if certain minimum throughput and revenue assumptions are not met. As a result of the changes discussed above, the Company believes that it will be able to continue to reduce the losses it has experienced on the NOARK project and expects its investment in NOARK to be realized over the life of the system. See Note 7 of the financial statements for additional discussion.

Ozark Pipeline, the new integrated system, became operational November 1, 1998, and includes 749 miles of pipeline with a total throughput capacity of 330 MMcfd. Deliveries are currently being made by the integrated pipeline to portions of AWG's distribution system, to Associated, and to the interstate pipelines with which it interconnects.

In 1999 Ozark Pipeline had an average daily throughput of 167.5 million cubic feet of gas per day (MMcfd). In 1998, NOARK had an average daily throughput of 27.3 MMcfd before the integration with Ozark, compared to average daily throughput of 39.8 MMcfd in 1997. At December 31, 1999, the Company's gas distribution subsidiary has transportation contracts with Ozark Pipeline for 82.3 MMcfd of firm capacity. These contracts expire in 2002 and 2003 and are renewable annually thereafter until terminated with 180 days' notice.

As further explained in Note 11 of the financial statements, the Company has severally guaranteed 60% of NOARK's currently outstanding debt. This debt financed a portion of the original cost to construct the NOARK Pipeline.

Regulatory Matters

In May 1999, the Staff of the APSC initiated a proceeding in which it sought an annual reduction of approximately \$2.3 million in the rates AWG charges its customers in northwest Arkansas. Staff's position was based on various adjustments to the utility's rate base, operating expenses, capital structure and rate of return. A large portion of the proposed reduction was based on a downward adjustment to the utility's current return on equity authorized by the APSC in 1996. During the third quarter of 1999 the Company reached agreement with the Staff and the APSC to resolve this issue and to close several other dockets that had remained open. In the settlement agreement, the Company agreed to reduce its rates collected from customers on a prospective basis in the amount of \$1.4 million annually, effective December 1, 1999. The agreement also includes the resolution of a proceeding initiated in December 1998 by the Staff of the APSC and that was previously disclosed by the Company where the Staff had recommended the disallowance of approximately \$3.1 million of gas supply costs. As part of the settlement, this docket was closed with no negative adjustment to the Company.

A December 1996 rate increase order issued by the APSC also provided that AWG cause to be filed with the APSC an independent study of its procedures for allocating costs between regulated and non-regulated operations, its staffing levels and executive compensation. The independent study was ordered by the APSC to address issues raised by the Office of the Attorney General of the State of Arkansas. The study was conducted in 1999 with a final report issued in December 1999. The report found the Company's costs to be reasonable in all categories and did not recommend any changes to the rates currently in effect.

The Company is subject to continuing reviews of its gas supply costs by the APSC and the MPSC and currently has open issues with the MPSC. However, the Company believes that none of these issues will have a material adverse effect on the Company's financial condition or results of operations.

AWG also purchases gas from unaffiliated producers under take-or-pay contracts. The Company believes that it does not have a significant exposure to liabilities resulting from these contracts and expects to be able to continue to satisfactorily manage its exposure to take-or-pay liabilities.

Operating Costs and Expenses

The Company's operating costs and expenses, exclusive of gas purchases by the Company's utility and marketing segments and the non-cash write-down of oil and gas properties in 1998, decreased by 8% in 1999 and increased by 1%

in 1998. The decrease in 1999 was primarily due to a 6% decrease in operating and general costs and an 11% decrease in depreciation, depletion and amortization (DD&A) expense. The comparative decrease in operating and general expenses was due primarily to costs recorded in 1998 for severance related costs and other costs associated with the closing of the Company's Oklahoma City exploration and production office, and to decreased oil and gas production. DD&A expense also decreased due to the decline in production. In 1998, a 5% increase in operating and general expenses due to inflationary increases and the severance costs discussed above was largely offset by a decrease in DD&A expense. The decrease in DD&A expense resulted primarily from a decline in volumes produced and a second quarter write-down of oil and gas properties which lowered the net cost basis of that segment's depreciable assets and the amortization rate per unit of production.

The Company follows the full cost method of accounting for the exploration, development, and acquisition of oil and gas properties. DD&A is calculated using the units-of-production method. The Company's annual gas and oil production, as well as the amount of proved reserves owned by the Company and the costs associated with adding those reserves, are all components of the amortization calculation. The DD&A rate in 1999 averaged \$1.00 per Mcfe, compared to \$1.04 per Mcfe in 1998 and \$1.06 per Mcfe in 1997. The overall decreases in the Company's average amortization rate were caused by the mid-year 1998 write-down of the Company's oil and gas properties to the full cost ceiling limitation. The Company evaluates its full cost ceiling position at the end of each quarter. Market prices, production rates, levels of reserves, and the evaluation of costs excluded from amortization all influence the calculation of the full cost ceiling. A decline in oil and gas prices from year-end 1999 levels or other factors, without other mitigating circumstances, could cause an additional future write-down of capitalized costs and a non-cash charge against future earnings.

Gas purchased for resale by the Company's marketing segment increased to \$92.9 million in 1999, compared to \$73.2 million in 1998 and \$63.1 million in 1997, due to an increase in volumes marketed. Changes in purchased gas costs for the gas distribution segment are caused by changes in requirements for gas sales, the price and mix of gas purchased, and the timing of recoveries of deferred purchased gas costs.

Inflation impacts the Company by generally increasing its operating costs and the costs of its capital additions. The effects of inflation on the Company's operations in recent years have been minimal due to low inflation rates. However, during late 1999 and continuing into 2000 the impact of inflation intensified in certain areas of the Company's exploration and production segment as shortages in drilling rigs, third party services and qualified labor increased. Additionally, delays inherent in the rate-making process prevent the Company from obtaining immediate recovery of increased operating costs of its gas distribution segment.

Other Costs and Expenses

Interest costs, net of capitalization, were up 1% in 1999 and 5% in 1998, both as compared to prior years. The increases in both 1999 and 1998 were primarily due to the lower level of capitalized interest related to the Company's oil and gas properties. Interest capitalized decreased 15% in 1999 and 13% in 1998. The changes in capitalized interest are due primarily to the change in the level of costs excluded from amortization in the exploration and production segment.

The changes in other income in 1999, 1998, and 1997 relate primarily to changes in the Company's share of operating losses incurred by NOARK, as discussed above. Additionally, in 1999 and 1998 the Company recorded certain costs related to a judgment bond that the Company was required to post after receiving an adverse verdict in October 1998. See Note 11 of the financial statements and Part I, Item 3, "Legal Proceedings," of this Form 10-K for additional information regarding the class action lawsuit.

The previously discussed second quarter 1998 write-down of the Company's oil and gas properties resulted in a deferred tax benefit of \$25.9 million. Excluding the impact of this change in deferred income taxes, the changes in the provisions for current and deferred income taxes recorded each year result primarily from the level of taxable income, the collection of under-recovered purchased gas costs, abandoned leasehold and seismic costs and the deduction of intangible drilling costs in the year incurred for tax purposes, netted against the turnaround of intangible drilling costs deducted for tax purposes in prior years. Intangible drilling costs are capitalized and amortized over future years for financial reporting purposes under the full cost method of accounting.

YEAR 2000

The Company has not experienced any material negative effects in its results of operation or financial condition related to year 2000. The Company is continuing to monitor its systems and the activities of third parties for year 2000 irregularities, however no material problems have been encountered to date. There have been no material changes in the costs previously disclosed to address the Company's year 2000 compliance effort.

LIQUIDITY AND CAPITAL RESOURCES

The Company continues to depend principally on internally generated funds as its major source of liquidity. However, the Company has sufficient ability to borrow additional funds to meet its short-term seasonal needs for cash, to finance a portion of its routine spending, if necessary, or to finance other extraordinary investment opportunities which might arise. In 1999, 1998, and 1997, net cash provided from operating activities totaled \$58.1 million, \$93.7 million, and \$79.5 million, respectively. The primary components of cash generated from operations are net income, depreciation, depletion and amortization, write-down of oil and gas properties and the provision for deferred income taxes. Net cash from operating activities provided 89% of the Company's capital requirements for routine capital expenditures, cash dividends, and scheduled debt retirements in 1999, 125% in 1998, and 79% in 1997.

Capital Expenditures

Capital expenditures totaled \$67.0 million in 1999, \$64.4 million in 1998, and \$88.8 million in 1997. The Company's exploration and production segment expenditures included acquisitions of oil and gas producing properties totaling \$9.4 million in 1999. The Company made no producing property acquisitions in 1998 or 1997.

	1999	1998
1997		

	(in thousands)	
Capital Expenditures		
Exploration and production	\$59,004	\$52,376
\$73,526		
Gas distribution	7,124	10,108
12,561		
Other	839	1,875
2,734		

	\$66,967	\$64,359
\$88,821		
=====		

Capital investments planned for 2000 total \$62.7 million, consisting of \$55.4 million for exploration and production, \$6.8 million for gas distribution system expenditures, and \$.5 million for general purposes.

The Company generally intends to adjust its level of routine capital expenditures depending on the expected level of internally generated cash and the level of debt in its capital structure. The Company expects that its level of capital investments will be adequate to allow the Company to maintain its present markets, explore and develop its existing gas and oil properties as well as generate new drilling prospects, and finance improvements necessary due to normal customer growth in its gas distribution segment.

Financing Requirements

At year-end 1999, Southwestern's total debt was \$302.2 million, including \$7.5 million classified as short-term debt. This compares to year-end 1998 total debt of \$283.4 million. Revolving credit facilities with two banks provide the Company access to \$80.0 million of variable rate capital, including two floating rate facilities that provide the Company access to \$60.0 million of long-term capital and another facility that provides the Company access to \$20.0 million of short-term capital. Borrowings outstanding under the long-term credit facilities totaled \$47.7 million at the end of 1999 and \$34.9 million at the end of 1998. Borrowings under the short-term facility were \$7.5 million at December 31, 1999. There were no short-term borrowings at December 31, 1998.

In 1997, the Company issued \$60.0 million of 7.625% Medium-Term Notes due 2027 and \$40.0 million of Medium-Term Notes due 2017. These notes were issued under a supplement to the Company's \$250.0 million shelf registration statement filed with the Securities and Exchange Commission in February 1997 for the issuance of up to \$125.0 million of Medium-Term Notes. The Company has \$25.0 million of capacity remaining under the shelf registration statement. The Company's public notes are rated BBB+ by Standard and Poor's and Baa2 by Moody's.

The Company remains confident that it will prevail in its appeal of the royalty owners proceeding described in Part I, Item 3, "Legal Proceedings," of this Form 10-K. However, the agreement under which unsecured letters of credit have been provided to collateralize the appeal bond would require the Company to reimburse its lenders for the full amount drawn under the letters of credit if it were to lose the appeal. Under these circumstances the Company's ability to borrow money would be restricted and existing financing agreements could be impacted through cross default provisions.

In connection with the Enogex transaction in 1998 discussed above under "NOARK Pipeline," the Company and a previous general partner converted certain of their loans to the NOARK partnership, plus accrued interest, into equity, and contributed approximately \$10.7 million to the partnership to fund costs incurred in connection with the prepayment of NOARK's 9.74% Senior Secured notes. The Company's share of the contribution was \$6.5 million and is the primary reason for the increase in investments during 1998. In June 1998, the NOARK partnership issued \$80.0 million of 7.15% Notes due 2018. The notes require semi-annual principal payments of \$1.0 million which began in December 1998. The Company and the other general partner of NOARK have severally guaranteed the principal and interest payments on the NOARK debt. The Company's share of the several guarantee is 60%. The Company advanced \$2.3 million to NOARK to fund its share of debt service payments in 1999 and advanced \$2.2 million in 1998.

Under its existing debt agreements, the Company may not issue long-term debt in excess of 65% of its total capital and may not issue total debt in excess of 70% of its total capital. To issue additional long-term debt, the Company must also have, after giving effect to the debt to be issued, a ratio of earnings to fixed charges of at least 1.5 or higher (for any

period of 12 consecutive months within the preceding 24 months). At the end of 1999, the capital structure consisted of 61.4% debt (including short-term debt but excluding the Company's several guarantee of NOARK's obligations) and 38.6% equity, with a ratio of earnings to fixed charges of 1.6. Over the long term, the Company expects to lower the debt portion of its capital structure by limiting its routine capital spending. In 2000 the proceeds from the sale of the Company's Missouri gas distribution assets, as discussed above under "Gas Distribution," will be used to pay down outstanding debt.

Working Capital

The Company maintains access to funds which may be needed to meet seasonal requirements through the revolving lines of credit explained above. The Company had net working capital of \$13.9 million at the end of 1999, compared to \$17.5 million at the end of 1998. Current assets decreased by 3% to \$70.2 million in 1999, while current liabilities increased 3% to \$56.3 million. The decrease in current assets at December 31, 1999, was due primarily to decreases in gas inventory in underground storage and prepaid expenses. The increase in current liabilities resulted from an increase in short-term debt partially offset by a decrease in accounts payable due to the timing of payments made.

FORWARD-LOOKING INFORMATION

All statements, other than historical financial information, included in this discussion and analysis of financial condition and results of operations 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. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements herein include, but are not limited to, the timing and extent of changes in commodity prices for gas and oil, the timing and extent of the Company's success in discovering, developing, producing, and estimating reserves, the effects of weather and regulation on the Company's gas distribution segment, increased competition, legal and economic factors, changing market conditions, the comparative cost of alternative fuels, conditions in capital markets and changes in interest rates, availability of oil field services, drilling rigs, and other equipment, as well as various other factors beyond the Company's control.

ITEM 7.A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

Market risks relating to the Company's operations result primarily from changes in commodity prices and interest rates, as well as credit risk concentrations. The Company uses natural gas and crude oil swap agreements and options to reduce the volatility of earnings and cash flow due to fluctuations in the prices of natural gas and oil. The Board of Directors has approved risk management policies and procedures to utilize financial products for the reduction of defined commodity price risks. These policies prohibit speculation with derivatives and limit swap agreements to counterparties with acceptable credit standings.

Credit Risks

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of trade receivables and derivative contracts associated with commodities trading. Concentrations of credit risk with respect to receivables are limited due to the large number of customers and their dispersion across geographic areas. No single customer accounts for greater than 5% of accounts receivable. See the discussion of credit risk associated with commodities trading below.

Interest Rate Risk

The following table provides information on the Company's financial instruments that are sensitive to changes in interest rates. The table presents the Company's debt obligations, principal cash flows and related weighted-average interest rates by expected maturity dates. Variable average interest rates reflect the rates in effect at December 31, 1999 for borrowings under the Company's revolving credit facilities. The Company's policy is to manage interest rates through use of a combination of fixed and floating rate debt. Interest rate swaps may be used to adjust interest rate exposures when appropriate. There were no interest rate swaps outstanding at December 31, 1999.

	Expected Maturity Date							Fair Value
	2000	2001	2002	2003	2004	Thereafter	Total	12/31/99
	(\$ in millions)							
Fixed Rate	-	\$2.0	\$2.0	\$2.0	\$2.0	\$239.0	\$247.0	\$234.0
Average Interest Rate	-	9.36%	9.36%	9.36%	9.36%	7.17%	7.25%	
Variable Rate	\$7.5	\$30.0	\$17.7	-	-	-	\$55.2	\$55.2
Average Interest Rate	6.45%	6.02%	6.45%	-	-	-	6.22%	

Commodities Risk

The Company uses over-the-counter natural gas and crude oil swap agreements and options to hedge sales of Company production and marketing activity against the inherent price risks of adverse price fluctuations or locational pricing differences between a published index and the NYMEX (New York Mercantile Exchange) futures market. These swaps include (1) transactions in which one party will pay a fixed price (or variable price) for a notional quantity in exchange for receiving a variable price (or fixed price) based on a published index (referred to as price swaps), and (2) transactions in which parties agree to pay a price based on two different indices (referred to as basis swaps).

The primary market risk related to these derivative contracts is the volatility in market prices for natural gas and crude oil. However, this market risk is offset by the gain or loss recognized upon the related sale of the natural gas or oil that is hedged. Credit risk relates to the risk of loss as a result of non-performance by the Company's counterparties. The counterparties are primarily major investment and commercial banks which management believes present minimal credit risks. The credit quality of each counterparty and the level of financial exposure the Company has to each counterparty are periodically reviewed to ensure limited credit risk exposure.

The following table provides information about the Company's financial instruments that are sensitive to changes in commodity prices. The table presents the notional amount in Bcf (billion cubic feet) or MBbls (thousand barrels), the weighted average contract prices, and the total dollar contract amount by expected maturity dates. The "Carrying Amount" for the contract amounts are calculated as the contractual payments for the quantity of gas or oil to be exchanged under futures contracts and do not represent amounts recorded in the Company's financial statements. The

"Fair Value" represents values for the same contracts using comparable market prices at December 31, 1999. At December 31, 1999, the "Carrying Amount" of these financial instruments exceeded the "Fair Value" by \$.4 million.

	Expected Maturity Date					
	2000		2001		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Natural Gas						
Swaps with a fixed price receipt						
Contract volume (Bcf)	15.6		.7		.5	
Weighted average price per Mcf	\$2.34		\$2.57		\$2.57	
Contract amount (in millions)	\$36.6	\$35.9	\$1.7	\$1.8	\$1.2	\$1.2
Swaps with a fixed price payment						
Contract volume (Bcf)	.2		-		-	
Weighted average price per Mcf	\$2.68		-		-	
Contract amount (in millions)	\$.7	\$.6	-	-	-	-
Basis swaps						
Contract volume (Bcf)	.1		-		-	
Weighted average basis difference per Mcf	\$.11		-		-	
Contract amount (in millions)	-	-	-	-	-	-
Oil						
Price floor						
Contract volume (MBbls)	350(1)		325		-	
Weighted average price per Bbl	\$18.00		\$18.00		-	
Contract amount (in millions)	\$6.3	\$6.5	\$5.9	\$6.4	-	-
Swaps with a fixed price receipt						
Contract volume (MBbls)	96		72		-	
Weighted average price per Bbl	\$18.87		\$17.49		-	
Contract amount (in millions)	\$1.8	\$1.5	\$1.3	\$1.2	-	-

(1) Subsequent to December 31, 1999, the Company offset its position relating to the \$18.00 per barrel floor on a notional amount of 320,837 barrels covering eleven months of 2000 production and replaced the floor with a crude oil swap to receive a fixed price of \$24.02 per barrel.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Management

Management is responsible for the preparation and integrity of the Company's financial statements. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States consistently applied, and necessarily include some amounts that are based on management's best estimates and judgment.

The Company maintains a system of internal accounting and administrative controls and an ongoing program of internal audits that management believes provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. The Company's financial statements have been audited by its independent auditors, Arthur Andersen LLP. In accordance with auditing standards generally accepted in the United States, the independent auditors obtained a sufficient understanding of the Company's internal controls to plan their audit and determine the nature, timing, and extent of other tests to be performed.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets with management, internal auditors, and Arthur Andersen LLP to review planned audit scopes and results and to discuss other matters affecting internal accounting controls and financial reporting. The independent auditors have direct access to the Audit Committee and periodically meet with it without management representatives present.

Report of Independent Public Accountants

To the Board of Directors and Shareholders of Southwestern Energy Company:

We have audited the consolidated balance sheets of SOUTHWESTERN ENERGY COMPANY (an Arkansas corporation) AND SUBSIDIARIES as of December 31, 1999 and 1998, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwestern Energy Company and Subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Tulsa, Oklahoma
February 4, 2000

Statements of Income
Southwestern Energy Company and Subsidiaries

For the Years Ended December 31,	1999	1998	1997
----- (in thousands, except per share amounts)			
Operating Revenues			
Gas sales	\$165,898	\$172,790	\$190,298
Gas marketing	96,570	76,367	65,435
Oil sales	9,891	9,557	14,258
Gas transportation and other	8,037	7,591	6,198
	-----	-----	-----
	280,396	266,305	276,189
	-----	-----	-----
Operating Costs and Expenses			
Gas purchases - utility	45,370	39,863	46,806
Gas purchases - marketing	92,851	73,235	63,054
Operating and general	57,957	61,915	59,167
Depreciation, depletion and amortization	41,603	46,917	48,208
Write-down of oil and gas properties	-	66,383	-
Taxes, other than income taxes	6,557	6,943	7,018
	-----	-----	-----
	244,338	295,256	224,253
	-----	-----	-----
Operating Income (Loss)	36,058	(28,951)	51,936
	-----	-----	-----
Interest Expense			
Interest on long-term debt	19,735	19,600	19,818
Other interest charges	923	1,470	1,083
Interest capitalized	(3,307)	(3,884)	(4,487)
	-----	-----	-----
	17,351	17,186	16,414
	-----	-----	-----
Other Income (Expense)	(2,331)	(3,956)	(5,017)
	-----	-----	-----
Income (Loss) Before Provision (Benefit) for Income Taxes	16,376	(50,093)	30,505
	-----	-----	-----
Provision (Benefit) for Income Taxes			
Current	537	(6,029)	(732)
Deferred	5,912	(13,467)	12,522
	-----	-----	-----
	6,449	(19,496)	11,790
	-----	-----	-----
Net Income (Loss)	\$ 9,927	\$(30,597)	\$ 18,715
	=====	=====	=====
Basic Earnings (Loss) Per Share	\$.40	\$(1.23)	\$.76
	=====	=====	=====
Weighted Average Common Shares Outstanding	24,941,550	24,882,170	24,738,882
	=====	=====	=====
Diluted Earnings (Loss) Per Share	\$.40	\$(1.23)	\$.76
	=====	=====	=====
Diluted Weighted Average Common Shares Outstanding	24,947,021	24,882,170	24,777,906
	=====	=====	=====

The accompanying notes are an integral part of the financial statements

December 31,
1998

1999

(in thousands)

Assets

Current Assets

Cash	\$	1,240	\$
1,622			
Accounts receivable		43,339	
40,655			
Inventories, at average cost		21,520	
22,812			
Other		4,073	
7,182			

Total current assets		70,172	
72,271			

Investments		14,180	
14,015			

Property, Plant and Equipment, at cost

Gas and oil properties, using the full cost method, including \$37,554,000 in 1999 and \$53,110,000 in 1998 excluded from amortization		816,199	
758,863			
Gas distribution systems		222,145	
217,680			
Gas in underground storage		28,712	
24,279			
Other		28,826	
27,643			

		1,095,882	
1,028,465			
Less: Accumulated depreciation, depletion and amortization		519,927	
478,790			

		575,955	
549,675			

Other Assets		11,139	
11,659			

	\$	671,446	\$
647,620			

Liabilities and Shareholders' Equity

Current Liabilities

Short-term debt	\$	7,500	\$
1,536			
Accounts payable		33,069	
37,780			
Taxes payable		3,506	
3,408			
Interest payable		2,483	
2,471			
Customer deposits		6,021	
5,635			
Other		3,767	
2,856			

The accompanying notes are an integral part of the financial statements.

For the Years Ended December 31,	1999	1998	1997
		(in thousands)	
Retained Earnings, beginning of year	\$194,102	\$230,669	\$217,889
Net income (loss)	9,927	(30,597)	18,715
Cash dividends declared (\$.24 per share)	(5,985)	(5,970)	(5,935)
Retained Earnings, end of year	\$198,044	\$194,102	\$230,669

The accompanying notes are an integral part of the financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Consolidation

Southwestern Energy Company (Southwestern or the Company) is an integrated energy company primarily focused on natural gas. Through its wholly-owned subsidiaries, the Company is engaged in oil and gas exploration and production, natural gas gathering, transmission and marketing, and natural gas distribution. Southwestern's exploration and production activities are concentrated in Arkansas, New Mexico, Texas, Oklahoma, Louisiana, and the Gulf Coast (primarily onshore). The gas distribution segment operates in northern Arkansas and parts of Missouri, and under normal weather conditions obtains approximately 50% of its gas supply from one of the Company's exploration and production subsidiaries. The customers of the gas distribution segment consist of residential, commercial, and industrial users of natural gas. Southwestern's marketing and transportation business is concentrated in its core areas of operations.

In late 1999, the Company entered into a definitive agreement to sell its Missouri gas distribution assets for \$32.0 million. The Company's basis in these assets is approximately \$28.0 million. The sale requires regulatory approval and is expected to close in the first half of 2000. The Company currently serves approximately 48,000 customers in Missouri. Proceeds from the sale of the Missouri assets will be used to reduce the Company's outstanding debt. The Company does not expect a material impact on its continuing results of operations due to this sale as interest savings from the reduction in debt are expected to generally offset the reduction in net income.

The consolidated financial statements include the accounts of Southwestern Energy Company and its wholly-owned subsidiaries, Southwestern Energy Production Company, SEECO, Inc., Arkansas Western Gas Company, Southwestern Energy Services Company, Diamond "M" Production Company, Southwestern Energy Pipeline Company, A.W. Realty Company, and Arkansas Western Pipeline Company. All significant intercompany accounts and transactions have been eliminated. The Company accounts for its general partnership interest in the NOARK Pipeline System, Limited Partnership (NOARK) using the equity method of accounting. In accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," the Company recognizes profit on intercompany sales of gas delivered to storage by its utility subsidiary. Certain reclassifications have been made to the prior years' financial statements to conform with the 1999 presentation. These reclassifications had no effect on previously recorded net income.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property, Depreciation, Depletion and Amortization Gas and Oil Properties - The Company follows the full cost method of accounting for the exploration, development, and acquisition of 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. The Company excludes all costs of unevaluated properties from immediate amortization. The Company's unamortized costs of oil and gas properties are limited to the sum of the future net revenues attributable to proved oil and gas reserves discounted at 10 percent plus the lower of cost or market value of any unproved properties. If the Company's unamortized costs in oil and gas properties exceed this ceiling amount, a provision for additional depreciation, depletion and amortization is required. At June 30, 1998, the Company recognized a \$40.5 million non-cash charge to earnings by recording a write-down of its oil and gas properties of \$66.4 million and a related reduction in the provision for deferred income taxes of \$25.9 million. At December 31, 1999, 1998, and 1997, the Company's net book value of oil and gas properties did not exceed the ceiling amounts. Market prices, production rates, levels of reserves, and the evaluation of costs excluded from amortization all influence the calculation of the full cost ceiling. A decline in oil and gas prices from year-end 1999 levels or other factors, without other mitigating circumstances, could cause an additional future write-down of capitalized costs and a noncash charge to earnings.

Gas Distribution Systems - Costs applicable to construction activities, including overhead items, are capitalized. Depreciation and amortization of the gas distribution system is provided using the straight-line method with average annual rates for plant functions ranging from 1.8% to 6.0%. Gas in underground storage is stated at average cost.

Other property, plant and equipment is depreciated using the straight-line method over estimated useful lives ranging from 5 to 40 years.

The Company charges to maintenance or operations the cost of labor, materials, and other expenses incurred in maintaining the operating efficiency of its properties. Betterments are added to property accounts at cost. Retirements are credited to property, plant and equipment at cost and charged to accumulated depreciation, depletion and amortization with no gain or loss recognized, except for abnormal retirements.

Capitalized Interest - Interest is capitalized on the cost of unevaluated gas and oil properties excluded from amortization. In accordance with established utility regulatory practice, an allowance for funds used during construction of major projects is capitalized and amortized over the estimated lives of the related facilities.

Gas Distribution Revenues and Receivables Customer receivables arise from the sale or transportation of gas by the Company's gas distribution subsidiary. The Company's gas distribution customers represent a diversified base of residential, commercial, and industrial users. Approximately 112,000 of these customers are served in northwest Arkansas and approximately 69,000 are served in northeast Arkansas and Missouri. The Company records gas distribution revenues on an accrual basis, as gas volumes are used, to provide a proper matching of revenues with expenses.

The gas distribution subsidiary's rate schedules include purchased gas adjustment clauses whereby the actual cost of purchased gas above or below the level included in the base rates is permitted to be billed or is required to be credited to customers. Each month, the difference between actual costs of purchased gas and gas costs recovered from customers is deferred. The deferred differences are billed or credited, as appropriate, to customers in subsequent months. Rate schedules for the Company's Arkansas systems include a weather normalization clause to lessen the impact of revenue increases and decreases which might result from weather variations during the winter heating season. The pass-through of gas costs to customers is not affected by this normalization clause.

Gas Production Imbalances

The exploration and production subsidiaries record gas sales using the entitlement method. The entitlement method requires revenue recognition of the Company's revenue interest share of gas production from properties in which gas sales are disproportionately allocated to owners because of marketing or other contractual arrangements. The Company's net imbalance position at December 31, 1999 and 1998 was not significant.

Income Taxes

Deferred income taxes are provided to recognize the income tax effect of reporting certain transactions in different years for income tax and financial reporting purposes.

Risk Management

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage defined commodity price risks. The Company uses commodity swap agreements and options to hedge sales of natural gas and crude oil. Gains and losses resulting from hedging activities are recognized when the related physical transactions are recognized. Gains or losses from commodity swap agreements and options that do not qualify for accounting treatment as hedges are recognized currently as other income or expense. See Note 8 for a discussion of the Company's commodity hedging activity.

Earnings Per Share and Shareholders' Equity Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during each year. The diluted earnings per share calculation adds to the weighted average number of common shares outstanding the incremental shares that would have been outstanding assuming the exercise of dilutive stock options. The Company had options for 1,275,899 shares of common stock with a weighted average exercise price of \$12.97 per share at December 31, 1999, and options for 951,047 shares with an average exercise price of \$14.61 at December 31, 1997, that were not included in the calculation of diluted shares because they would have had an anti-dilutive effect. There were options for 1,634,901 shares with a weighted average exercise price of \$12.15 outstanding at December 31, 1998. Due to the Company's net loss for 1998 any incremental shares would have an anti-dilutive effect and were, therefore, not considered.

During 1999 and 1998, the Company issued 105,436 and 105,488 treasury shares, respectively, under a compensatory plan and for stock awards and returned to treasury 2,300 and 4,496 shares, respectively, canceled from earlier issues under the compensatory plan. The net effect of these transactions was a \$1.2 million decrease in 1999 and a \$1.1 million decrease in 1998 in treasury stock.

(2) DEBT

Debt balances as of December 31, 1999 and 1998 consisted of the following:

1998	1999

	(in thousands)
Senior Notes	
8.86% Series	\$ - \$
1,536	
9.36% Series due in annual installments of \$2.0 million beginning 2001	22,000
22,000	
6.70% Series due 2005	125,000
125,000	
7.625% Series due 2027, putable at the holders' option in 2009	60,000
60,000	
7.21% Series due 2017	40,000
40,000	

	247,000
248,536	
Other	
Variable rate (6.18% at December 31, 1999) unsecured revolving credit arrangements	47,700
34,900	

	294,700
Total long-term debt	294,700
283,436	
Less: Current portion of long-term debt	-
1,536	

	\$294,700
Long-term debt	\$294,700
\$281,900	
=====	
Short-term note payable	\$ 7,500 \$
-	
=====	

The Company has several prepayment options under the terms of certain of its Senior Notes. Prepayments made without premium are subject to certain limitations. Other prepayment options involve the payment of premiums based in some instances on market interest rates at the time of prepayment.

Revolving credit facilities with two banks provide the Company access to \$80.0 million of variable rate capital. Of this amount, long-term variable rate credit facilities provide the Company access to \$60.0 million of revolving credit. Borrowings outstanding under these long-term credit facilities totaled \$47.7 million at December 31, 1999. The Company also has a short-term variable rate credit facility which provides the Company access to \$20.0 million of revolving credit. Borrowings outstanding under this credit facility were \$7.5 million at December 31, 1999, all of which were classified as short-term debt. Each facility allows the Company four interest rate options - the floating prime rate, a fixed rate tied to either short-term certificate of deposit or Eurodollar rates, or a fixed rate based on the lenders' cost of funds. The short-term revolving credit facility expires in 2000 and the long-term revolving credit facilities expire in 2001 and 2002. The Company intends to renew or replace the facilities prior to expiration.

The terms of the debt instruments and agreements contain covenants which impose certain restrictions on the Company, including limitation of additional indebtedness and restrictions on the payment of cash dividends. At December 31, 1999, approximately \$96.4 million of retained earnings was available for payment as dividends.

Aggregate maturities of long-term debt for each of the years ending December 31, 2000 through 2004, are \$0, \$32.0 million, \$19.7 million, \$2.0 million, and \$2.0 million. Total interest payments were \$19.6 million in 1999 and 1998, and \$18.8 million in 1997.

(3) INCOME TAXES

The provision (benefit) for income taxes included the following components:

	1999	1998	1997

	(in thousands)		
Federal:			
Current	\$ -	\$ (6,673)	
\$(1,614)			
Deferred	5,236	(10,098)	11,422
State:			
Current	537	644	882
Deferred	795	(3,250)	1,219
Investment tax credit amortization (119)	(119)	(119)	

Provision (benefit) for income taxes	\$6,449	\$(19,496)	\$11,790
	=====		

The provision (benefit) for income taxes was an effective rate of 39.4% in 1999, 38.9% in 1998, and 38.6% in 1997. The following reconciles the provision (benefit) for income taxes included in the consolidated statements of income with the provision (benefit) which would result from application of the statutory federal tax rate to pretax financial income:

	1999	1998	1997

	(in thousands)		
Expected provision (benefit) at federal statutory rate of 35%	\$5,732	\$(17,532)	\$10,677
Increase (decrease) resulting from:			
State income taxes, net of federal income tax effect	866	(1,694)	1,365
Other (252)	(149)	(270)	

Provision (benefit) for income taxes	\$6,449	\$(19,496)	\$11,790
	=====		

The components of the Company's net deferred tax liability as of December 31, 1999 and 1998 were as follows:

1999

1998

(in thousands)

Deferred tax liabilities:	
Differences between book and tax basis of property	\$123,516
\$109,538	
Stored gas	8,267
7,583	
Deferred purchased gas costs	2,289
1,997	
Prepaid pension costs	2,086
2,036	
Book over tax basis in partnerships	10,133
8,647	
Other	415
1,091	

	146,706
130,892	-----
Deferred tax assets:	
Accrued compensation	705
647	
Alternative minimum tax credit carryforward	3,127
3,034	
Net operating loss carryforward	16,808
6,949	
Other	1,155
1,234	

	21,795
11,864	-----
Net deferred tax liability	\$124,911
\$119,028	=====

Total income tax payments of \$.6 million, \$3.3 million, and \$4.2 million were made in 1999, 1998, and 1997, respectively.

(4) PENSION PLAN AND OTHER POSTRETIREMENT BENEFITS

The Company applies SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." Substantially all employees are covered by the Company's defined benefit pension and postretirement benefit plans. The following provides a reconciliation of the changes in the plans' benefit obligations, fair value of assets, and funded status as of December 31, 1999 and 1998:

	Pension Benefits		Other Postretirement Benefits	
	1999	1998	1999	1998
(in thousands)				
Change in Benefit Obligations:				
Benefit obligation at January 1	\$59,194	\$47,257	\$ 3,832	\$ 3,067
Service cost	1,881	2,060	99	87
Interest cost	4,130	3,644	261	242
Amendments	5,560	-	-	-
Actuarial loss (gain)	(5,359)	7,920	(255)	616
Benefits paid	(3,891)	(1,687)	(178)	(180)
Benefit obligation at December 31	\$61,515	\$59,194	\$ 3,759	\$ 3,832
Change in Plan Assets:				
Fair value of plan assets at January 1	\$71,518	\$65,966	\$ 345	\$ -
Actual return on plan assets	2,838	7,168	20	(12)
Employer contributions	-	-	428	537
Benefit payments	(3,878)	(1,616)	(178)	(180)
Fair value of plan assets at December 31	\$70,478	\$71,518	\$ 615	\$ 345
Funded Status:				
Funded status at December 31	\$ 8,963	\$12,324	\$ (3,144)	\$ (3,487)
Unrecognized net actuarial (gain) loss	(9,237)	(7,441)	926	1,284
Unrecognized prior service cost	5,417	308	-	-
Unrecognized transition obligation	(220)	(403)	1,265	1,368
Prepaid (accrued) benefit cost	\$ 4,923	\$ 4,788	\$ (953)	\$ (835)

The benefit obligation and fair value of plan assets at December 31, 1999 include \$5.5 million to \$6.0 million related to employees of the Company's Missouri gas distribution segment that will be transferred in 2000 upon closing the sale of the Company's Missouri gas distribution assets.

The Company's supplemental retirement plan has an accumulated benefit obligation in excess of plan assets. The plan's accumulated benefit obligation was \$233,000 and \$198,000 at December 31, 1999 and 1998, respectively. There are no plan assets in the supplemental retirement plan due to the nature of the plan.

Net periodic pension and other postretirement benefit costs include the following components for 1999, 1998, and 1997:

	Pension Benefits			Other Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
	(in thousands)					
Service cost	\$ 1,881	\$ 2,060	\$ 1,744	\$ 99	\$ 87	\$ 90
Interest cost	4,130	3,644	3,213	261	242	213
Expected return on plan assets	(6,259)	(5,863)	(5,007)	(28)	-	-
Amortization of transition obligation	(183)	(183)	(183)	103	103	103
Recognized net actuarial (gain) loss	(142)	(150)	(211)	111	55	40
Amortization of prior service costs	451	46	49	-	-	-
	\$ (122)	\$ (446)	\$ (395)	\$546	\$487	\$446

Prior to 1998, the Company's pension plans provided for benefits based on years of benefit service and the employee's "average compensation" as defined. During 1998, the Company amended its plans to become "cash balance" plans on a prospective basis. A cash balance plan provides benefits based upon a fixed percentage of an employee's annual compensation. The Company's funding policy is to contribute amounts which are actuarially determined to provide the plans with sufficient assets to meet future benefit payment requirements and which are tax deductible.

The postretirement benefit plans provide contributory health care and life insurance benefits. Employees become eligible for these benefits if they meet age and service requirements. Generally, the benefits paid are a stated percentage of medical expenses reduced by deductibles and other coverages. During 1998, the Company established trusts to partially fund its postretirement benefit obligations.

The weighted average assumptions used in the measurement of the Company's benefit obligations for 1999 and 1998 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	1999	1998	1999	1998
Discount rate	7.50%	6.75%	7.50%	6.75%
Expected return on plan assets	9.00%	9.00%	5.00%	5.00%
Rate of compensation increase	4.50%	5.00%	n/a	n/a

For measurement purposes a 9% annual rate of increase in the per capita cost of covered medical benefits and an 8% annual rate of increase in the per capita cost of dental benefits was assumed for 2000. These rates were assumed to gradually decrease to 6% for medical benefits and 5% for dental benefits for 2011 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
	----- (in thousands)	
Effect on the total service and interest cost components	\$ 46	\$
(39)		
Effect on postretirement benefit obligation	\$400	
\$(344)		
=====		

(5) NATURAL GAS AND OIL PRODUCING ACTIVITIES

All of the Company's gas and oil properties are located in the United States. The table below sets forth the results of operations from gas and oil producing activities:

	1999	1998	1997
	----- (in thousands)		
Sales	\$ 75,039	\$ 86,232	\$100,129
Production (lifting) costs (17,155)	(14,039)	(15,807)	
Depreciation, depletion and amortization (40,777)	(34,230)	(39,444)	
Write-down of oil and gas properties	-	(66,383)	-

Income tax benefit (expense) (16,161)	26,770 (10,528)	(35,402) 13,913	42,197

Results of operations	\$ 16,242	\$(21,489)	\$ 26,036
=====			

The results of operations shown above exclude overhead and interest costs. Income tax expense is calculated by applying the statutory tax rates to the revenues less costs, including depreciation, depletion and amortization, and after giving effect to permanent differences and tax credits.

The table below sets forth capitalized costs incurred in gas and oil property acquisition, exploration, and development activities during 1999, 1998, and 1997:

1997	1999	1998

		(in thousands)
Property acquisition costs	\$19,845	\$12,729
\$10,911		
Exploration costs	19,519	14,273
33,225		
Development costs	19,059	24,709
28,825		

Capitalized costs incurred	\$58,423	\$51,711
\$72,961		
=====		
Amortization per Mcf equivalent	\$1.004	\$1.039
\$1.057		
=====		

Capitalized interest is included as part of the cost of oil and gas properties. The Company capitalized \$3.3 million, \$3.9 million, and \$4.5 million during 1999, 1998, and 1997, respectively, based on the Company's weighted average cost of borrowings used to finance the expenditures.

In addition to capitalized interest, the Company also capitalized internal costs of \$7.4 million, \$7.7 million, and \$6.0 million during 1999, 1998, and 1997, respectively. These internal costs were directly related to acquisition, exploration and development activities and are included as part of the cost of oil and gas properties.

The following table shows the capitalized costs of gas and oil properties and the related accumulated depreciation, depletion and amortization at December 31, 1999 and 1998:

1998	1999
(in thousands)	
Proved properties \$703,669	\$774,473
Unproved properties 55,194	41,726

Total capitalized costs 758,863	816,199
Less: Accumulated depreciation, depletion and amortization 386,384	419,517

Net capitalized costs \$372,479	\$396,682
=====	

The table below sets forth the composition of net unevaluated costs excluded from amortization as of December 31, 1999. Included in these costs is \$13.2 million related to 3-D seismic projects in south Louisiana. These costs and subsequent costs to be incurred will be evaluated over several years as the seismic data is interpreted and the acreage is explored. The remaining costs excluded from amortization are related to properties which are not individually significant and on which the evaluation process has not been completed. The Company is, therefore, unable to estimate when these costs will be included in the amortization computation.

Total	1999	1998	1997	Prior
(in thousands)				
Property acquisition costs \$15,205	\$ 5,814	\$4,661	\$1,454	\$3,276
Exploration costs 17,963	5,308	3,992	6,934	1,729
Capitalized interest 4,386	411	910	1,556	1,509

	\$11,533	\$9,563	\$9,944	\$6,514
\$37,554	=====			

(6) NATURAL GAS AND OIL RESERVES (UNAUDITED)

The following table summarizes the changes in the Company's proved natural gas and oil reserves for 1999, 1998, and 1997:

	1999		1998		1997	
	Gas (MMcf)	Oil (MBbls)	Gas (MMcf)	Oil (MBbls)	Gas (MMcf)	Oil (MBbls)
Proved reserves, beginning of year	303,667	6,850	291,378	7,852	297,467	8,238
Revisions of previous estimates	(7,464)	1,155	1,064	(696)	861	(51)
Extensions, discoveries, and other additions	34,730	225	44,814	442	26,430	426
Production	(29,444)	(578)	(32,668)	(703)	(33,355)	(749)
Acquisition of reserves in place	9,762	576	-	-	76	-
Disposition of reserves in place	(3,728)	(369)	(921)	(45)	(101)	(12)
Proved reserves, end of year	307,523	7,859	303,667	6,850	291,378	7,852
=====						
Proved, developed reserves:						
Beginning of year	258,092	6,370	252,393	7,312	255,234	7,804
End of year	250,290	7,154	258,092	6,370	252,393	7,312
=====						

The "Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves" (standardized measure) is a disclosure required by SFAS No. 69, "Disclosures About Oil and Gas Producing Activities." The standardized measure does not purport to present the fair market value of a company's proved gas and oil reserves. In addition, there are uncertainties inherent in estimating quantities of proved reserves. Substantially all quantities of gas and oil reserves owned by the Company were estimated or audited by the independent petroleum engineering firm of K & A Energy Consultants, Inc.

Following is the standardized measure relating to proved gas and oil reserves at December 31, 1999, 1998, and 1997:

	1999	1998	1997
		(in thousands)	
Future cash inflows	\$ 989,997	\$ 820,522	\$ 973,536
Future production and development costs	(227,361)	(176,130)	(197,021)
Future income tax expense	(247,408)	(206,097)	(261,173)
Future net cash flows	515,228	438,295	515,342
10% annual discount for estimated timing of cash flows	(253,153)	(215,502)	(256,279)
Standardized measure of discounted future net cash flows	\$ 262,075	\$ 222,793	\$ 259,063

Under the standardized measure, future cash inflows were estimated by applying year-end prices, adjusted for known contractual changes, to the estimated future production of year-end proved reserves. Future cash inflows were reduced by estimated future production and development costs based on year-end costs to determine pretax cash inflows. Future income taxes were computed by applying the year-end statutory rate, after consideration of permanent differences, to the excess of pretax cash inflows over the Company's tax basis in the associated proved gas and oil properties. Future net cash inflows after income taxes were discounted using a 10% annual discount rate to arrive at the standardized measure.

Following is an analysis of changes in the standardized measure during 1999, 1998, and 1997:

	1999	1998	1997
		(in thousands)	
Standardized measure, beginning of year	\$222,793	\$259,063	\$370,944
Sales and transfers of gas and oil produced, net of production costs	(61,000)	(70,425)	(82,975)
Net changes in prices and production costs	48,506	(71,400)	(173,730)
Extensions, discoveries, and other additions, net of future production and development costs	48,279	61,146	41,267
Acquisition of reserves in place	14,765	-	116
Revisions of previous quantity estimates	(612)	(3,024)	646
Accretion of discount	32,447	38,445	55,852
Net change in income taxes	(17,015)	23,714	62,186
Changes in production rates (timing) and other	(26,088)	(14,726)	(15,243)
Standardized measure, end of year	\$262,075	\$222,793	\$259,063

(7) INVESTMENT IN UNCONSOLIDATED PARTNERSHIP

At December 31, 1999, the Company held a 25% general partnership interest in the NOARK Partnership. NOARK Pipeline was formerly a 258-mile long intrastate gas transmission system which extended across northern Arkansas. In January 1998, the Company entered into an agreement with Enogex Inc. (Enogex) that resulted in the expansion of the NOARK Pipeline and provided the pipeline with access to Oklahoma gas supplies through an integration of NOARK with the Ozark Gas Transmission System (Ozark). Enogex is a subsidiary of OGE Energy Corp. Ozark was a 437-mile interstate pipeline system which began in eastern Oklahoma and terminated in eastern Arkansas. Enogex acquired the Ozark system and contributed it to the NOARK partnership. Enogex also acquired the NOARK partnership interests not owned by Southwestern. The acquisition of Ozark and its integration with NOARK Pipeline was approved by the Federal Energy Regulatory Commission in late 1998 at which time NOARK Pipeline was converted to an interstate pipeline and operated in combination with Ozark. Enogex funded the acquisition of Ozark and the expansion and integration with NOARK Pipeline which resulted in the Company's ownership interest in the partnership decreasing to 25% from 48%.

The Company's investment in NOARK totaled \$14.0 million at December 31, 1999 and \$13.8 million at December 31, 1998. The Company's investment in NOARK includes advances of \$2.3 million made during 1999, \$10.1 million made during 1998, and \$5.0 million made during 1997. Advances in 1998 included the Company's share of costs related to the prepayment of NOARK's Senior Secured Notes. Other advances are made primarily to provide certain minimum cash balances to service NOARK's long-term debt. See Note 11 for further discussion of NOARK's funding requirements and the Company's investment in NOARK.

NOARK's financial position at December 31, 1999 and 1998 is summarized below:

	1999	
1998		

		(in thousands)
Current assets	\$ 7,056	\$
9,535		
Noncurrent assets	178,195	
175,361		

	\$185,251	
\$184,896		
=====		
Current liabilities	\$ 10,413	\$
8,576		
Long-term debt	75,000	
77,000		
Partners' capital	99,838	
99,320		

	\$185,251	
\$184,896		
=====		

The Company's share of NOARK's pretax loss, before the effect of accrued interest expense on general partner loans, was \$2.0 million, \$3.1 million, and \$4.5 million for 1999, 1998, and 1997, respectively. The Company records its share of NOARK's pretax loss in other income (expense) on the statements of income.

NOARK's results of operations for 1999, 1998, and 1997 are summarized below:

	1999	1998	1997

	(in thousands)		
Operating revenues	\$40,358	\$17,445	\$ 4,963
Pretax net loss	\$(3,564)	\$(4,114)	
\$(8,850)			
	=====		

(8) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the value:

Cash, Customer Deposits, and Short-Term Debt: The carrying amount is a reasonable estimate of fair value.

Long-Term Debt: The fair value of the Company's long-term debt is estimated based on the expected current rates which would be offered to the Company for debt of the same maturities.

Commodity Hedges: The fair value of all hedging financial instruments is the amount at which they could be settled, based on quoted market prices or estimates obtained from dealers. The carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 1999 and 1998 were as follows:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)				
Cash \$1,622	\$1,240	\$1,240	\$1,622	
Customer deposits \$5,635	\$6,021	\$6,021	\$5,635	
Short-term debt \$1,536	\$7,500	\$7,500	\$1,536	
Long-term debt \$290,621	\$294,700	\$289,193	\$281,900	
Commodity hedges \$8,227	\$640	\$(399)	\$1,276	

Derivatives and Price Risk Management

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 137 delayed the required implementation date of SFAS No. 133 by one year. SFAS No. 133 is now effective for fiscal years beginning after June 15, 2000. SFAS No. 133, as amended, must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in all hybrid contracts or, at a company's option, only hybrid contracts that were issued, acquired, or substantively modified after either January 1, 1998 or January 1, 1999 (a company may elect either transition date).

The Company has not yet quantified the impacts of adopting SFAS No. 133 on its financial statements, nor has it determined the method of adoption. However, it should be noted that SFAS No. 133 could increase volatility in future reported earnings and other comprehensive income.

The Company uses natural gas and crude oil swap agreements and options to reduce the volatility of earnings and cash flow due to fluctuations in the prices of natural gas and oil. The Board of Directors has approved risk management

policies and procedures to utilize financial products for the reduction of defined commodity price risks. These policies prohibit speculation with derivatives and limit swap agreements to counterparties with appropriate credit standings.

The Company uses over-the-counter natural gas and crude oil swap agreements and options to hedge sales of Company production and marketing activity against the inherent price risks of adverse price fluctuations or locational pricing differences between a published index and the NYMEX (New York Mercantile Exchange) futures market. These swaps include (1) transactions in which one party will pay a fixed price (or variable price) for a notional quantity in exchange for receiving a variable price (or fixed price) based on a published index (referred to as price swaps), and (2) transactions in which parties agree to pay a price based on two different indices (referred to as basis swaps).

At December 31, 1999, the Company had outstanding natural gas price swaps on total notional volumes of 17.0 Bcf. Of the total, the Company will receive fixed prices ranging from \$2.13 to \$2.87 per MMBtu on 16.8 Bcf. Under contracts covering the remaining .2 Bcf, the Company will make average fixed price payments of \$2.68 per MMBtu and receive variable prices based on the NYMEX futures market. At December 31, 1999, the Company held outstanding basis swaps on a notional volume of .1 Bcf. At December 31, 1999, the Company also had outstanding crude oil swaps to receive fixed prices of \$18.87 per barrel in 2000 and \$17.49 per barrel in 2001 on notional volumes of 96,000 barrels and 72,000 barrels, respectively. The Company's price risk management activities reduced revenues \$1.1 million in 1999, increased revenues \$7.4 million in 1998, and decreased revenues \$2.7 million in 1997.

The Company uses options to fix a floor, a ceiling, or both a floor and ceiling (a "collar") for prices on its production volumes. At December 31, 1999, the Company had a crude oil price floor of \$18.00 per barrel (based on the NYMEX futures market) on total notional volumes of 675,000 barrels covering production during calendar years 2000 through 2001. Subsequent to December 31, 1999 the Company offset its position relating to the \$18.00 per barrel floor on a notional amount of 320,837 barrels covering eleven months of 2000 production and replaced the floor with a crude oil swap to receive a fixed price of \$24.02 per barrel.

The primary market risk related to these derivative contracts is the volatility in market prices for natural gas and crude oil. However, this market risk is offset by the gain or loss recognized upon the related sale of the natural gas or oil that is hedged. Credit risk relates to the risk of loss as a result of non-performance by the Company's counterparties. The counterparties are primarily major investment and commercial banks which management believes present minimal credit risks. The credit quality of each counterparty and the level of financial exposure the Company has to each counterparty are periodically reviewed to ensure limited credit risk exposure.

(9) STOCK OPTIONS

The Southwestern Energy Company 1993 Stock Incentive Plan (1993 Plan) provides for the compensation of officers and key employees of the Company and its subsidiaries. The 1993 Plan provides for grants of options, shares of restricted stock, and stock bonuses that in the aggregate do not exceed 1,700,000 shares, the grant of stand-alone stock appreciation rights (SARs), shares of phantom stock and cash awards, the shares related to which in the aggregate do not exceed 1,700,000 shares, and the grant of limited and tandem SARs (all terms as defined in the 1993 Plan). The types of incentives which may be awarded are comprehensive and are intended to enable the Board of Directors to structure the most appropriate incentives and to address changes in income tax laws which may be enacted over the term of the plan. The Company has also awarded stock option grants outside the 1993 Plan to certain non-officer employees and to certain officers at the time of their hire.

The Southwestern Energy Company 1993 Stock Incentive Plan for Outside Directors provides for annual stock option grants of 12,000 shares (with 12,000 limited SARs) to each non-employee director. Options may be awarded under the plan on no more than 240,000 shares.

The Company's 1985 Nonqualified Stock Option Plan expired in 1992, except with respect to awards then outstanding. The following tables summarize stock option activity for the years 1999, 1998, and 1997 and provide information for options outstanding at December 31, 1999:

	1999		1998		1997	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at January 1	1,634,901	\$12.15	1,619,114	\$13.37	1,501,641	\$13.39
Granted	562,250	\$6.18	394,900	\$8.00	433,248	\$12.58
Exercised	1,333	\$7.31	22,200	\$5.58	56,850	\$5.96
Canceled	134,619	\$12.68	356,913	\$13.48	258,925	\$13.82
Options outstanding at December 31	2,061,199	\$10.49	1,634,901	\$12.15	1,619,114	\$13.37

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding at Year End	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Options Exercisable at Year End	Weighted Average Exercise Price
\$6.00 - \$9.44	880,550	\$6.59	9.5	110,758	\$7.35
\$10.06 - \$13.38	636,934	\$12.09	6.1	480,153	\$12.14
\$14.00 - \$17.50	543,715	\$14.95	5.4	393,048	\$15.09
	2,061,199	\$10.49	7.4	983,959	\$12.78

All options are issued at fair market value at the date of grant and expire ten years from the date of grant. Options generally vest to employees and directors over a three to four year period from the date of grant. Of the total options outstanding, 325,000 performance accelerated options were granted in 1994 at an option price of \$14.63. These options vest over a four-year period beginning six years from the date of grant or earlier if certain corporate performance criteria are achieved.

The Company has granted 303,240 shares of restricted stock to employees through 1999. Of this total, 260,690 shares vest over a three-year period and the remaining shares vest over a five-year period. The related compensation expense is being amortized over the vesting periods. As of December 31, 1999, 103,213 shares have vested to employees and 11,246 shares have been cancelled and returned to treasury shares.

The Company applies the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's stock option plans been determined consistent with the provisions of SFAS No. 123, the Company's net income (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below:

1997	1999	1998

Net income (loss), in thousands		
As reported	\$9,927	\$(30,597)
\$18,715		
Pro forma	\$9,241	\$(31,201)
\$18,378		
Basic earnings (loss) per share		
As reported	\$.40	\$(1.23)
\$.76		
Pro forma	\$.37	\$(1.25)
\$.74		
Diluted earnings (loss) per share		
As reported	\$.40	\$(1.23)
\$.76		
Pro forma	\$.37	\$(1.25)
\$.74		
=====		

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: dividend yield of 2.3% to 4.0%; expected volatility of 37.0% to 39.0%; risk-free interest rate of 6.0% to 6.6%; and expected lives of 6 years.

(10) COMMON STOCK PURCHASE RIGHTS

In 1999, the Company's Common Share Purchase Rights Plan was amended and extended for an additional ten years. Per the terms of the amended plan, one common share purchase right is attached to each outstanding share of the Company's common stock. Each right entitles the holder to purchase one share of common stock at an exercise price of \$40.00, subject to adjustment. These rights will become exercisable in the event that a person or group acquires or commences a tender or exchange offer for 15% or more of the Company's outstanding shares or the Board determines that a holder of 10% or more of the Company's outstanding shares presents a threat to the best interests of the Company. At no time will these rights have any voting power.

If any person or entity actually acquires 15% of the common stock (10% or more if the Board determines such acquiror is adverse), rightholders (other than the 15% or 10% stockholder) will be entitled to buy, at the right's then current exercise price, the Company's common stock with a market value of twice the exercise price. Similarly, if the Company is acquired in a merger or other business combination, each right will entitle its holder to purchase, at the right's then current exercise price, a number of the surviving company's common shares having a market value at that time of twice the right's exercise price.

The rights may be redeemed by the Board for \$.01 per right or exchanged for common shares on a one-for-one basis prior to the time that they become exercisable. In the event, however, that redemption of the rights is considered in connection with a proposed acquisition of the Company, the Board may redeem the rights only on the recommendation

of its independent directors (nonmanagement directors who are not affiliated with the proposed acquiror). These rights expire in 2009.

(11) CONTINGENCIES AND COMMITMENTS

The Company and the other general partner of NOARK have severally guaranteed the principal and interest payments on NOARK's 7.15% Notes due 2018. The Company's share of the several guarantee is 60%. At December 31, 1999 and 1998, the principal outstanding for these Notes was \$77.0 million and \$79.0 million, respectively. The Notes were issued in June 1998 and require semi-annual principal payments of \$1.0 million. The proceeds from the issuance of the Notes were used to repay temporary financing provided by the other general partner and outstanding amounts under an unsecured revolving credit agreement. The temporary financing provided by the other general partner was incurred in connection with the prepayment in early 1998 of NOARK's 9.74% Senior Secured notes. Under the several guarantee, the Company is required to fund its share of NOARK's debt service which is not funded by operations of the pipeline. As a result of the integration of NOARK Pipeline with the Ozark Gas Transmission System, as discussed further in Note 7, management of the Company believes that it will realize its investment in NOARK over the life of the system. Therefore, no provision for any loss has been made in the accompanying financial statements. Additionally, the Company's gas distribution subsidiary has transportation contracts for firm capacity of 82.3 MMcfd on NOARK's integrated pipeline system. These contracts expire in 2002 and 2003, and are renewable year-to-year thereafter until terminated by 180 days' notice.

In May 1996, a class action suit was filed against the Company on behalf of royalty owners alleging improprieties in the disbursements of royalty proceeds. A trial was held on the class action suit beginning in late September 1998 that resulted in a verdict against the Company and two of its wholly-owned subsidiaries, SEECO, Inc. and Arkansas Western Gas Company, in the amount of \$62.1 million. The trial judge subsequently awarded pre-judgment interest in an amount of \$31.1 million, and post-judgment interest accrued from the date of the judgment at the rate of 10% per annum simple interest. The Company has been required by the state court to post a judgment bond which now stands at \$109.3 million (verdict amount plus pre-judgment interest and 20 months of post-judgment interest) in order to stay the jury's verdict and proceed with an appeal process. The bond was placed by a surety company and was collateralized by unsecured letters of credit.

The verdict was returned following a trial on the issues of the class action lawsuit brought by certain royalty owners of SEECO, Inc., who contend that since 1979 the defendants breached implied covenants in certain oil and gas leases, misrepresented or failed to disclose material facts to royalty owners concerning gas purchase contracts between the Company's subsidiaries, and failed to fulfill other alleged common law duties to the members of the royalty owner plaintiff class. The litigation was commenced in May 1996 and was disclosed by the Company at that time.

The Company believes that the jury's verdict was wrong as a matter of law and fact and that incorrect rulings by the trial judge (including evidentiary rulings and prejudicial jury instructions) provide significant grounds for a successful appeal. The Company had asked the trial judge to recuse himself due to his apparent bias toward the plaintiffs and had also filed a motion with the trial court for judgment notwithstanding the verdict or, in the alternative, for a new trial. These motions were denied. The Company has filed and will vigorously prosecute an appeal in the Arkansas Supreme Court. Based on discussions with outside legal counsel management remains confident that the jury's verdict will be overturned and the case remanded for a new trial. If the Company is not successful in its appeal from the jury verdict, the Company's financial condition and results of operations would be materially and adversely affected. However,

management believes that the Company's ultimate liability, if any, resulting from this case will not be material to its financial position, but in any one year could be significant to the results of operations. At December 31, 1999 and 1998, no amounts had been accrued on this matter.

In its Form 8-K filed July 2, 1996, the Company disclosed that a lawsuit relating to overriding royalty interests in certain Arkansas oil and gas properties had been filed against it and two of its wholly-owned subsidiaries. The lawsuit, which was brought by a party who was originally included in (but opted out of) the class action litigation described above, involves claims similar to those upon which judgment was rendered against the Company and its subsidiaries. In September 1998, another party who opted out of the class threatened the Company with similar litigation. While the amounts of these pending and threatened claims could be significant, management believes, based on its extensive investigations and trial preparation, that these claims are without merit, and that the Company's ultimate liability, if any, will not be material to its consolidated financial position or results of operations. This matter went to a non-jury trial as to liability on January 10, 2000 and the Company is awaiting the court's ruling.

The United States Minerals Management Service (MMS), a federal agency responsible for the administration of federal oil and gas leases, is investigating the Company and its subsidiaries in respect of claims similar to those in the class action litigation. MMS was included in the class action litigation against its objections, but has not pursued further action to remove itself from the class. If MMS does remove itself from the class, its claims may be brought separately under federal statutes that provide for treble damages and civil penalties. In such event, the Company believes it would have defenses that were not available in the class action litigation. While the aggregate amount of MMS's claims could be significant, management believes, based on its investigations, that the Company's ultimate liability, if any, will not be material to its consolidated financial position or results of operations.

As previously reported, the Company's subsidiary, Southwestern Energy Production Company (SEPCO), filed suit in 1997 against several parties, including an outside consultant previously employed by SEPCO, alleging breach of contract, fraud, and other causes of action in connection with services performed on SEPCO's south Louisiana exploration projects. On June 23, 1998, the outside consultant filed a counterclaim against SEPCO. In 1999, this matter was settled for an amount that was not material to the Company's consolidated financial position or results of operations.

The Company is subject to laws and regulations relating to the protection of the environment. The Company's policy is to accrue environmental and cleanup related costs of a noncapital nature when it is both probable that a liability has been incurred and when the amount can be reasonably estimated. Management believes any future remediation or other compliance related costs will not have a material effect on the financial position or reported results of operations of the Company.

The Company is subject to other litigation and claims that have arisen in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, the results of such litigation and claims will not have a material effect on the results of operations or the financial position of the Company.

(12) SEGMENT INFORMATION

The Company applies SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." The Company's reportable business segments have been identified based on the differences in products or services provided. Revenues for the exploration and production segment are derived from the production and sale of natural gas and crude oil. Revenues for the gas distribution segment arise from the transportation and sale of natural gas at retail. The marketing segment generates revenue through the marketing of both Company and third party produced gas volumes.

Summarized financial information for the Company's reportable segments is shown in the following table. The "Other" column includes items related to non-reportable segments (real estate and pipeline operations) and corporate items.

	Exploration and Production	Gas Distribution	Marketing	Other	Total
(in thousands)					
1999					
Revenues from external customers	\$ 51,533	\$132,293	\$96,570	\$ -	\$280,396
Intersegment revenues	23,506	127	40,956	416	65,005
Operating income	16,451	17,187	2,142	278	36,058
Depreciation, depletion and amortization expense	34,230	7,186	92	95	41,603
Interest expense (1)	11,345	5,027	-	979	17,351
Provision (benefit) for income taxes (1)	1,806	4,569	859	(785)	6,449
Assets	435,022	190,731	11,212	34,481(2)	671,446
Capital expenditures	59,004	7,124	9	830	66,967
=====					
1998					
Revenues from external customers	\$ 55,347	\$134,579	\$76,367	\$ 12	\$266,305
Intersegment revenues	30,885	132	20,808	608	52,433
Operating income (loss)	(47,273)	16,029	1,800	493	(28,951)
Depreciation, depletion and amortization expense	39,444	7,296	41	136	46,917
Write-down of oil and gas properties	66,383	-	-	-	66,383
Interest expense (1)	10,906	5,299	38	943	17,186
Provision (benefit) for income taxes (1)	(23,238)	4,028	704	(990)	(19,496)
Assets	408,193	192,396	8,905	38,126(2)	647,620
Capital expenditures	52,376	10,108	8	1,867	64,359
=====					
1997					
Revenues from external customers	\$ 56,658	\$153,993	\$65,435	\$ 103	\$276,189
Intersegment revenues	43,471	162	17,372	601	61,606
Operating income	33,303	16,941	1,315	377	51,936
Depreciation, depletion and amortization expense	40,777	7,227	26	178	48,208
Interest expense (1)	10,090	5,484	100	740	16,414
Provision (benefit) for income taxes (1)	9,054	4,157	476	(1,897)	11,790
Assets	460,193	204,223	7,085	39,365(2)	710,866
Capital expenditures	73,526	12,561	45	2,689	88,821
=====					

(1) Interest expense and the provision (benefit) for income taxes by segment is an allocation of corporate amounts as debt and income tax expense (benefit) are incurred at the corporate level.

(2) Other assets includes the Company's equity investment in the operations of NOARK (see Note 7), corporate assets not allocated to segments, and assets for non-reportable segments.

Intersegment sales by the exploration and production segment and marketing segment to the gas distribution segment are priced in accordance with terms of existing contracts and current market conditions. Parent company assets include furniture and fixtures, prepaid debt costs, and prepaid pension costs. Parent company general and administrative costs, depreciation expense and taxes other than income are allocated to segments. All of the Company's operations are located within the United States.

(13) QUARTERLY RESULTS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended December 31, 1999 and 1998:

Quarter Ended	March 31	June 30	September 30	December 31
(in thousands, except per share amounts)				
1999				
Operating revenues	\$78,220	\$56,039	\$60,400	\$85,737
Operating income	\$19,929	\$1,541	\$1,664	\$12,924
Net income (loss)	\$9,132	\$(1,704)	\$(1,935)	\$4,434
Basic and diluted earnings (loss) per share	\$.37	\$(.07)	\$(.08)	\$.18
1998				
Operating revenues	\$82,956	\$56,334	\$53,551	\$73,464
Operating income (loss)	\$19,923	\$(63,835)	\$2,914	\$12,047
Net income (loss)	\$9,072	\$(42,058)	\$(1,331)	\$3,720
Basic and diluted earnings (loss) per share	\$.37	\$(1.70)	\$(.05)	\$.15

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with accountants on accounting and financial disclosure.

Part III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The definitive Proxy Statement to holders of the Company's Common Stock in connection with the solicitation of proxies to be used in voting at the Annual Meeting of Shareholders on May 24, 2000 (the 2000 Proxy Statement), is hereby incorporated by reference for the purpose of providing information about the identification of directors. Refer to the sections "Election of Directors" and "Security Ownership of Directors, Nominees, and Executive Officers" for information concerning the directors.

Information concerning executive officers is presented in Part I, Item 4 of this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The 2000 Proxy Statement is hereby incorporated by reference for the purpose of providing information about executive compensation. Refer to the section "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The 2000 Proxy Statement is hereby incorporated by reference for the purpose of providing information about security ownership of certain beneficial owners and management. Refer to the sections "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Directors, Nominees, and Executive Officers" for information about security ownership of certain beneficial owners and management.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The 2000 Proxy Statement is hereby incorporated by reference for the purpose of providing information about related transactions. Refer to the section "Security Ownership of Directors, Nominees, and Executive Officers" for information about transactions with members of the Company's Board of Directors.

Part IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) The consolidated financial statements of the Company and its subsidiaries and the report of independent public accountants are included in Item 8 of this Report.

(2) The consolidated financial statement schedules have been omitted because they are not required under the related instructions, or are not applicable.

(3) The exhibits listed on the accompanying Exhibit Index (pages 63 and 64) are filed as part of, or incorporated by reference into, this Report.

(b) Reports on Form 8-K:

A Current Report on Form 8-K was filed on October 20, 1999, referencing a press release issued on October 19, 1999, announcing the sale of the Company's Missouri utility assets to Atmos Energy for \$32.0 million.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused the report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHWESTERN ENERGY COMPANY
(Registrant)

Dated: March 29, 2000

BY: /s/ Greg D. Kerley

Greg D. Kerley
Executive Vice President
and Chief Financial

Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 29, 2000.

/s/ Harold M. Korell

President, Chief Executive Officer
and Director

Harold M. Korell

/s/ Greg D. Kerley

Executive Vice President
and Chief Financial Officer

Greg D. Kerley

/s/ Stanley T. Wilson
Officer

Controller and Chief Accounting

Stanley T. Wilson

/s/ Charles E. Scharlau

Director and Chairman

Charles E. Scharlau

/s/ Lewis E. Epley, Jr.

Director

Lewis E. Epley, Jr.

/s/ John Paul Hammerschmidt

Director

John Paul Hammerschmidt

/s/ Robert L. Howard

Director

Robert L. Howard

/s/ Kenneth R. Mourton

Director

Kenneth R. Mourton

Not Applicable

EXHIBIT INDEX

Exhibit No. -----	Description -----
3.	Articles of Incorporation and Bylaws of the Company (amended and restated Articles of Incorporation incorporated by reference to Exhibit 3 to Annual Report on Form 10-K for the year ended December 31, 1993); Bylaws of the Company (amended Bylaws of the Company incorporated by reference to Exhibit 3 to Annual Report on Form 10-K for the year ended December 31, 1994).
4.1 (filed	Amended and Restated Rights Agreement, dated April 12, 1999 herewith).
4.2 Senior (incorporated November	Prospectus, Registration Statement, and Indenture on 6.70% Notes due December 1, 2005 and issued December 5, 1995 by reference to the Company's Forms S-3 and S-3/A filed on November 1, 1995, and November 17, 1995, respectively, and also to the Company's filings of a Prospectus and Prospectus Supplement on November 22, 1995, and December 4, 1995, respectively).
4.3 on (Prospectus a Distribution the	Prospectus Supplement and Form of Distribution Agreement on \$125,000,000 of Medium-Term Notes dated February 21, 1997 (Prospectus Supplement incorporated by reference to the Company's filing of a Prospectus Supplement on February 21, 1997, Form of Distribution Agreement incorporated by reference to Exhibit 10 filed with the Company's Form 8-K dated February 21, 1997).
10.1 Gas 1997 Annual amendment Form	Material Contracts: Gas Purchase Contract between SEECO, Inc. and Associated Natural Gas Company, dated October 1, 1990, and as amended September 30, 1997 (original contract incorporated by reference to Exhibit 10 to Annual Report on Form 10-K for the year ended December 31, 1990; amendment incorporated by reference to Exhibit 10.2 to Annual Report on Form 10-K for the year ended December 31, 1997).
10.2 Long-Term as Company (original on amendment Report	Compensation Plans: (a) Summary of Southwestern Energy Company Annual and Incentive Compensation Plan, effective January 1, 1985, as amended July 10, 1989 (replaced by Southwestern Energy Company Incentive Compensation Plan, effective January 1, 1993) (original plan incorporated by reference to Exhibit 10 to Annual Report on Form 10-K  ended December 31, 1984; first amendment thereto incorporated by reference to Exhibit 10 to Annual Report on Form 10-K for the year ended December 31, 1990).

Exhibit No. -----	Description -----
10.3 adopted and plan Form February Report	Southwestern Energy Company Supplemental Retirement Plan, May 31, 1989, and Amended and Restated as of December 15, 1993, as further amended February 1, 1996 (amended and restated incorporated by reference to Exhibit 10.5 to Annual Report on Form 10-K for the year ended December 31, 1993; amendment dated February 1, 1996, incorporated by reference to Exhibit 10.5 to Annual Report on Form 10-K for the year ended December 31, 1995).
10.4 dated to	Southwestern Energy Company Supplemental Retirement Plan Trust, December 30, 1993 (incorporated by reference to Exhibit 10.6 Annual Report on Form 10-K for the year ended December 31, 1993).
10.5 effective Annual	Southwestern Energy Company Nonqualified Retirement Plan, October 4, 1995 (incorporated by reference to Exhibit 10.7 to Report of Form 10-K for the year ended December 31, 1995).
10.6 dated Annual	Employment and Consulting Agreement for Charles E. Scharlau, May 21, 1998 (incorporated by reference to Exhibit 10.9 to Report on Form 10-K for the year ended December 31, 1998).
10.7 1997 Form	Employment Agreement for Harold M. Korell, effective April 28, (incorporated by reference to Exhibit 10.15 to Annual Report on Form 10-K for the year ended December 31, 1997).
10.8 officer Exhibit 31,	Form of Indemnity Agreement, between the Company and each and director of the Company (incorporated by reference to Exhibit 10.20 to Annual Report on Form 10-K for the year ended December 1991).
10.9 of reference ended	Form of Executive Severance Agreement for the Executive Officers of the Company, effective February 17, 1999 (incorporated by reference to Exhibit 10.12 to Annual Report on Form 10-K for the year ended December 31, 1998).

10.10 Omnibus Project Agreement of NOARK Pipeline System, Limited Partnership by and among Southwestern Energy Pipeline Company, Southwestern Energy Company, Enogex Arkansas Pipeline Corporation, and Enogex Inc., dated January 12, 1998 (incorporated by reference to Exhibit 10.17 to Annual Report on Form 10-K for the year ended December 31, 1997).

10.11 Amended and Restated Limited Partnership Agreement of NOARK Pipeline System, Limited Partnership dated January 12, 1998 and amended June 18, 1998 (amended and restated agreement incorporated by reference to Exhibit 10.18 to Annual Report on Form 10-K for the year ended December 31, 1997; first amendment thereto incorporated by reference to Exhibit 10.14 to Annual Report on Form 10-K for the year ended December 31, 1998).

10.12 Asset Sale and Purchase Agreement by and among Southwestern Energy Company, Arkansas Western Gas Company and Atmos Energy Corporation, dated October 15, 1999 (filed herewith).

21. Subsidiaries of the Registrant (incorporated by reference to Exhibit 21 to Annual Report on Form 10-K for the year ended December 31, 1996).

23. Consent of Arthur Andersen LLP (filed herewith).

27. Financial Data Schedule for the year ended December 31, 1999 (filed herewith).

SOUTHWESTERN ENERGY COMPANY
AND
FIRST CHICAGO TRUST COMPANY OF NEW YORK
Rights Agent

Amended and Restated Rights Agreement

Dated as of April 12, 1999

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AMENDED AND RESTATED RIGHTS AGREEMENT

This Amended and Restated Rights Agreement (this "Agreement or "Amended and Restated Rights Agreement"), dated as of April 12, 1999, between Southwestern Energy Company, an Arkansas corporation (the "Company"), and First Chicago Trust Company of New York (the "Rights Agent").

WITNESSETH:

WHEREAS, on May 5, 1989 (the "Declaration Date"), the Board of Directors of the Company authorized and declared a dividend of one right representing the right to purchase one share of Common Stock upon the terms and subject to the conditions set forth in a Rights Agreement, dated May 5, 1989, between the Company and the Rights Agent (the "1989 Rights Agreement") for each outstanding share of common stock, \$2.50 par value, of the Company outstanding at the close of business on May 19, 1989 (the "Record Date"), and authorized the issuance of one Right with respect to each share of Common Stock (as hereinafter defined) that shall become outstanding between the Record Date and the earlier of the Distribution Date and the Expiration Date (as such terms are hereinafter defined), each Right initially representing the right to purchase one share of Common Stock upon the terms and subject to the conditions hereinafter set forth;

WHEREAS, the Company declared a three-for-one stock split in 1993 and, in connection with such split, the number of Rights was adjusted pursuant to Section 11 of the 1989 Rights Agreement such that each certificate for Common Stock outstanding as of the date of this Amended and Restated Rights Agreement also represents one Right under the 1989 Rights Agreement representing the right to purchase one share of Common Stock upon the terms and subject to the conditions set forth in the 1989 Rights Agreement;

WHEREAS, the Board of Directors have authorized and approved the amendment and restatement in its entirety of the 1989 Rights Agreement in order to extend the Expiration Date until April 11, 2009 and to make other changes and provisions that they have determined are necessary or desirable and do not adversely affect the interests of the holders of the Rights;

WHEREAS, in compliance with the terms of Section 26 of the 1989 Rights Agreement, the Company has (i) delivered to the Rights Agent a certificate from an appropriate officer of the Company which states that this Agreement has been approved by the Company's Board of Directors and is in compliance with the terms of Section 26 of the 1989 Rights Agreement and (ii) instructed the Rights Agent to execute this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. Certain Definitions. For purposes of this Agreement, the following terms shall have the meanings indicated:

(a) "Acquiring Person" shall mean (i) any Person (as hereinafter defined), together with all Affiliates and Associates (as such terms are hereinafter defined) of such Person,

who or which shall, subsequent to the Declaration Date, become the Beneficial Owner (as hereinafter defined) of 15% or more of the shares of Common Stock then outstanding (other than as a result of an Approved Offer (as hereinafter defined), or (ii) any Person who is an Adverse Person (as hereinafter defined) or (iii) any Person, together with all Affiliates and Associates of such Person, who or which is, on the Declaration Date, the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding if, subsequent to the Declaration Date, such Person, together with all Affiliates and Associates of such Person, shall increase its Beneficial Ownership of shares of Common Stock by an additional 1% or more of the shares of Common Stock then outstanding; provided, however, that (x) a Person shall not become an Acquiring Person if such Person, together with its Affiliates and Associates, shall become the Beneficial Owner of 15% or more (in the case of clause (i) above) or an additional 1% or more (in the case of clause (iii) above) of the shares of Common Stock then outstanding solely as a result of a reduction in the number of shares of Common Stock outstanding due to the repurchase of shares of Common Stock by the Company, unless and until such time as such Person shall purchase or otherwise become (as a result of actions taken by such Person or its Affiliates or Associates) the Beneficial Owner of additional shares of Common Stock constituting 1% or more of the then outstanding shares of Common Stock; (y) "Acquiring Person" shall not include any Company Entity (as defined below); and (z) "Acquiring Person" shall not include any Person who becomes the Beneficial Owner of 15% or more (or an additional 1% or more), of the outstanding shares of Common Stock but who acquired beneficial ownership of shares of Common Stock inadvertently (including, without limitation, because (i) such Person was unaware that it Beneficially Owned 15% or more of the Common Stock or (ii) such Person was aware of the extent of such beneficial ownership but such Person acquired beneficial ownership of such shares of Common Stock without any plan or intention to change or influence the control of the Company), and such Person promptly (and in any event within ten Business Days after being so requested by the Company) enters into an irrevocable commitment satisfactory to the Company's Board of Directors promptly (and in any event within twenty Business Days or such shorter period as shall be determined by the Company's Board of Directors) to divest, and thereafter promptly divests as required by such commitment, sufficient shares of Common Stock so that such Person (together with all of its Affiliates and Associates) ceases to be a Beneficial Owner of 15% or more of shares of Common Stock.

(b) "Adverse Person" shall mean any Person declared to be an Adverse Person by the Board of Directors of the Company upon a determination that such Person, alone or together with its Affiliates and Associates, has, at any time after the Declaration Date, become the Beneficial Owner of a number of shares of Common Stock that the Board of Directors determines to be substantial (which amount shall in no event be less than 10% of the shares of Common Stock then outstanding) and a determination by a majority of the Board of Directors after reasonable inquiry and an investigation, including consultation with such persons as the Board of Directors shall deem appropriate, that (a) as such Beneficial Ownership by such Person is intended to cause the Company to repurchase the shares of Common Stock beneficially owned by such Person or to cause pressure on the Company to take action or enter into a transaction or series of transactions intended to provide such Person with short-term financial gain under circumstances where the Board of Directors determines that the best long-term interest of the Company and its shareholders would not be served by taking such action or entering into such

transaction or series of transactions at that time or (b) such Beneficial Ownership is causing or reasonably likely to cause a material adverse impact on the business or prospects of the Company. The failure by the Board of Directors of the Company to declare a Person to be an Adverse Person following such Person becoming the Beneficial Owner of 10% or more of the outstanding shares of Common Stock shall not imply that such Person is not an Adverse Person or limit the Board's right at any time in the future to declare such Person to be an Adverse Person.

(c) "Affiliate" shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as in effect on the date of this Amended and Restated Rights Agreement.

(d) "Approved Offer" shall mean a tender or exchange offer for all outstanding shares of Common Stock that is at a price and on terms approved, prior to the acceptance for payment of shares under such tender or exchange offer, by the Board of Directors of the Company based upon the prior recommendation of a majority of its Independent Directors at a time at which there are at least two Independent Directors.

(e) "Associate" shall include (x) any Person included in the definition of "Associate" in Rule 12b-2 under the Exchange Act, as in effect on the date of this Amended and Restated Rights Agreement, and (y) any Affiliate of any such Person.

(f) A Person shall be deemed the "Beneficial Owner" of, and shall be deemed to "beneficially own," any securities:

(i) which such Person or any of such Person's Affiliates or Associates beneficially owns, directly or indirectly (as determined pursuant to Rule 13d-3 or 13d-5 under the Exchange Act as in effect on the date of this Agreement);

(ii) which such Person or any of such Person's Affiliates or Associates has, directly or indirectly: (A) the right to acquire (whether such right is exercisable immediately or only after the passage of time or the satisfaction of one or more conditions or both) pursuant to any agreement (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities), arrangement or understanding (whether in writing or not), or upon the exercise of conversion rights, exchange rights, rights (other than the Rights described herein), warrants or options, or otherwise (provided, however, that a Person shall not be deemed to be the Beneficial Owner of, or to beneficially own, any security solely because such security has been tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered security is accepted for payment or exchange); or (B) the right to vote or dispose of, or to direct the vote or disposition of, alone or in concert with others, pursuant to any agreement, arrangement or understanding (whether in writing or not); provided, however, that a Person shall not be deemed pursuant to this clause (ii)(B) to be the Beneficial Owner of, or to beneficially own, any security if the agreement, arrangement or understanding to vote, or direct the vote of, such security (1) arises solely from a revocable proxy or consent given to such Person or any of such Person's Affiliates or Associates in response to a public proxy or

consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations under the Exchange Act and (2) is not also then reportable on Schedule 13D under the Exchange Act; or

(iii) which are beneficially owned, directly or indirectly, by any other Person with which such Person or any of such Person's Affiliates or Associates has any agreement (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities), arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy or consent as described in clause (ii) (B) of this paragraph (c)) or disposing of any securities of the Company.

If a Person shall be deemed to be the Beneficial Owner of any securities which are not outstanding, such securities shall be deemed to be outstanding for purposes of determining the percentage of Common Stock beneficially owned by such Person but all other securities (including securities of the same class) not actually outstanding shall not be deemed outstanding for such purposes.

(e) "Board of Directors" shall mean the Board of Directors of the Company.

(f) "Business Day" shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in the State of New York or Illinois are authorized or obligated by law or executive order to close.

(g) "Close of business" on any given date shall mean 5:00 P.M., New York City time, on such date; provided, however, that if such date is not a Business Day it shall mean 5:00 P.M., New York City time, on the next succeeding Business Day.

(h) "Common Stock" shall mean the common stock \$0.10 par value, of the Company (as it may be constituted from time to time during the term of this Agreement), except that "Common Stock" when used with reference to any Person other than the Company (or, in the case of a transaction referred to in Section 13 hereof, if the Company is the successor to the other Person referred to in clause (a), (b) or (c) of Section 13, or is the surviving corporation, when thereafter used with reference to the Company) shall mean the capital (or, in the case of a partnership or other unincorporated entity, the equivalent equity interest) with the greatest voting power of such Person, together with all rights and benefits (however denominated or constituted) relating to such capital stock (including, without limitation, any rights or warrants to acquire additional shares of such capital stock or other securities or assets, or to participate in any trust for the benefit of holders of such shares, or to share in the benefits of any agreements or other arrangements for the benefit of such holders), whether or not such rights are yet exercisable, and together with any other securities which are represented by the certificates for such shares or are transferred in connection with transfers of such shares.

(i) "Company Entity" shall mean the Company, any wholly owned Subsidiary (as hereinafter defined) of the Company, any employee benefit plan or employee stock plan of the Company or of any of its wholly owned Subsidiaries, or any Person holding Common Stock

which was organized, appointed or established by the Company or any of its wholly owned Subsidiaries for or pursuant to the terms of any such plan

(j) "Person" shall mean any individual, firm, corporation, partnership or other entity.

(k) "Stock Acquisition Date" shall mean the time and day of the first public announcement (which for purposes of this definition, shall include, without limitation, the filing of a report pursuant to the Exchange Act) by the Company or an Acquiring Person containing information indicating that an Acquiring Person has become such. For purposes hereof, in the event that it is publicly announced that any Person has acquired beneficial ownership of sufficient shares of Common Stock to cause such Person to become an Acquiring Person under clause (i) or clause (iii) of the definition of Acquiring Person, such Person shall not be deemed an Acquiring Person for up to ten Business Days (or such shorter period as shall be determined by the Board of Directors) if such Person advises the Company that it acquired beneficial ownership inadvertently (within the meaning of clause (z) of the proviso to the definition of an Acquiring Person) and the Board of Directors is continuing to determine whether such Person qualifies for the exclusion contained in such clause (z).

(l) "Subsidiary" shall mean, with respect to any Person, any corporation or other entity as to which such Person beneficially owns sufficient voting securities or other ownership interests having ordinary voting power sufficient, in the absence of contingencies, to elect at least a majority of its directors (or individuals performing similar functions).

(m) The terms set forth below are defined in the Sections indicated below:

Term	Section
Act	7 (c)
Common Stock Equivalent (B)	11 (a) (iv)
current market price	11 (d)
Current Value (A)	11 (a) (iv)
Declaration Date	Recitals
Distribution Date	3 (a)
Exchange Act	1 (c)
Exchange Ratio	24
Expiration Date	7 (a)
Final Expiration Date	7 (a)
Independent Director	23
Principal Party	13(b)
Proposed Acquiror	23
Purchase Price	7 (b)
Record Date	Recitals
Redemption Price	23
Right	Recitals
Right Certificates	3 (a)

Rights Agent	Recitals
Section 13 Event	13(a)
Security	11 (d) (i)
Spread	11 (a) (iv)
(A)	
Substitution Period	11 (a) (iv)
Summary of Rights	3 (b)
Trading Day	11(d)(i)

Section 2. Appointment of Rights Agent. The Company hereby appoints the Rights Agent to act as agent for the Company and the holders of the Rights in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such Co-Rights Agents as it may deem necessary or desirable. In the event that the Company appoints one or more Co-Rights Agents, the respective duties of the Rights Agent and any Co-Rights Agents shall be as the Company shall determine.

Section 3. Issue of Right Certificates. (a) Until the close of business on the earlier of (i) the tenth Business Day after the Stock Acquisition Date (including any such date which is after the Declaration Date even if prior to the Record Date), and (ii) the tenth Business Day (or such later day as may be determined by action of the Board of Directors of the Company prior to such time as any Person becomes an Acquiring Person) after the date of the commencement of, or the first public announcement of the intent of any Person (other than a Company Entity) to commence (which intention to commence remains in effect for five Business Days after such announcement), a tender or exchange offer the consummation of which would result in any person becoming an Acquiring Person (the earlier of the dates referred to in clauses (i) and (ii) above being herein referred to as the "Distribution Date"), (x) the Rights will be evidenced (subject to the provisions of paragraph (b) of this

Section 3) by the certificates for the Common Stock registered in the names of the holders of the Common Stock (which certificates for Common Stock shall also be deemed (other than for purposes of this Section 3 and any provision of this Agreement referring to the issuance of Rights Certificates) to be Right Certificates (as such term is hereinafter defined)) and not by separate Right Certificates, and (y) the Rights (and the right to receive Right Certificates) will be transferable only simultaneously and together with the transfer of the underlying shares of Common Stock. As soon as practicable after the Distribution Date, subject to Section 11(a)(iii) hereof, the Company shall prepare and execute and the Rights Agent will countersign, and the Company will send or cause to be sent, by first-class, postage-prepaid mail, to each record holder of the Common Stock as of the close of business on the Distribution Date, as shown by the records of the Company, at the address of such holder shown on such records, a right certificate, substantially in the form of Exhibit A hereto (a "Right Certificate"), evidencing one Right for each share of Common Stock so held, subject to adjustment as herein provided. As of and after the close of business on the Distribution Date, the Rights will be evidenced solely by such Right Certificates and may be transferred only by the transfer of the Rights Certificates as permitted hereby, separately and apart from any transfer of one or more shares of Common Stock.

(b) As soon as practicable after the date of this Amended and Restated Agreement, the Company will mail a copy of the Summary of Rights to Purchase Common Stock

in the form attached hereto as Exhibit B (the "Summary of Rights"), by first-class, postage-prepaid mail, to each record holder of the Common Stock as of the close of business on the Record Date, as shown by the records of the Company, at the address of such holder shown on such records. With respect to certificates for Common Stock outstanding as of the close of business on the date of this Amended and Restated Agreement or issued prior to the Distribution Date, until the Distribution Date, the Rights will be evidenced solely by such certificates registered in the names of the holders thereof (whether or not such certificates contain the legend contemplated by Section 3(c) of the 1989 Rights Agreement). Until the Distribution Date (or the earlier redemption or expiration of the Rights), the surrender for transfer of any certificate for Common Stock outstanding as of the close of business on the Record Date shall also constitute the transfer of the Rights associated with the shares of Common Stock represented thereby.

The Company will mail to any record holder of a Right (including, prior to the Distribution Date, a record holder of shares of Common Stock) a copy of this Rights Agreement, without charge, within ten Business Days of a written request therefor.

(c) Rights shall be issued in respect of all shares of Common Stock that become outstanding after the date of this Amended and Restated Agreement and prior to the earlier of the Distribution Date and the Expiration Date, and all certificates for shares of Common Stock issued or which become outstanding after the date of this Amended and Restated Agreement but prior to the earlier of the Distribution Date and the Expiration Date, shall have impressed on, printed on, written on or otherwise affixed to them substantially the following legend:

This certificate also evidences and entitles the holder hereof to certain Rights as set forth in a Rights Agreement between Southwestern Energy Company and First Chicago Trust Company of New York, dated as of May 5, 1989, as amended by the Amended and Restated Rights Agreement dated as of April 12, 1999 and as it may from time to time be further supplemented or amended pursuant to its terms (the "Rights Agreement"), the terms of which are hereby incorporated by reference and a copy of which is on file at the principal executive offices of Southwestern Energy Company. Under certain circumstances as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. Southwestern Energy Company will mail to the registered holder of this certificate a copy of the Rights Agreement without charge within ten business days after receipt of a written request therefor. Under certain circumstances provided for in the Rights Agreement, Rights issued to, or beneficially owned by any Person who is an Acquiring Person or an Affiliate or Associate thereof (as such terms are defined in the Rights Agreement) or any subsequent holder of such Rights shall become null and void.

Section 4. Form of Right Certificates. The Right Certificates (and the forms of election to purchase shares and of assignment to be printed on the reverse thereof) shall be substantially in the form of Exhibit A hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any

rule or regulation of any stock exchange or quotation system on which the Rights may from time to time be listed, or to conform to usage. Subject to the provisions of Sections 11 and 22 hereof, the Right Certificates, whenever distributed, shall be dated as of the Record Date, and on their face shall entitle the holders thereof to purchase such number of shares of Common Stock as shall be set forth therein at the Purchase Price (as such term is hereinafter defined), but the number and type of securities purchasable upon the exercise of each Right and the Purchase Price thereof shall be subject to adjustment as provided herein. To the extent provided in Section 11(a)(iii) hereof, certain Right Certificates shall contain the legend provided for therein.

Section 5. Countersignature and Registration. (a) The Right Certificates shall be executed on behalf of the Company by its Chairman of the Board, its President, its Chief Executive Officer, any Vice President, its Treasurer or its Secretary, either manually or by facsimile signature, and have affixed thereto the Company's seal or a facsimile thereof which shall be attested by the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature. The Right Certificates shall be manually countersigned by the Rights Agent and shall not be valid for any purpose unless so countersigned. In case any officer of the Company who shall have signed or attested any of the Right Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Right Certificates, nevertheless, may be countersigned by the Rights Agent, and issued and delivered with the same force and effect as though the person who signed or attested such Right Certificates had not ceased to be such officer of the Company; and any Right Certificate may be signed or attested on behalf of the Company by any person who, at the actual date of the execution of such Right Certificate, shall be a proper officer of the Company to sign or attest such Right Certificate, although at the date of the execution of this Rights Agreement any such person was not such an officer.

(b) Following the Distribution Date, the Rights Agent will keep or cause to be kept, at its principal office or such other office designated by it for such purpose, books for registration and transfer of the Right Certificates issued hereunder. Such books shall show the name(s) and address(es) of the holder(s) of each Right Certificate, the number of Rights evidenced on its face by each Right Certificate, the certificate number of each Right Certificate and the date of each Right Certificate.

Section 6. Transfer, Split Up, Combination and Exchange of Right Certificates; Mutilated, Destroyed, Lost or Stolen Right Certificates. (a) Subject to the provisions of Sections 7(e), 11(a)(iii) and 14 hereof, at any time after the close of business on the Distribution Date, and at or prior to the close of business on the Expiration Date, any Right Certificate or Right Certificates may be transferred, split up, combined or exchanged for another Right Certificate or Right Certificates, entitling the registered holder to purchase a like number of shares of Common Stock (or other securities, cash and/or assets, as the case may be), as the Right Certificate or Right Certificates surrendered then entitled such holder to purchase. Any registered holder desiring to transfer, split up, combine or exchange any Right Certificate shall make such request in writing delivered to the Rights Agent, and shall surrender the Right Certificate or Right Certificates to be transferred, split up, combined or exchanged at the principal office or such other office of the Rights Agent designated for such purpose. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such

surrendered Right Certificate unless and until the registered holder shall have completed and signed the certificate contained in the form of assignment on the reverse side thereof and shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Associates and Affiliates of the foregoing as the Company shall reasonably request. Thereupon the Rights Agent shall countersign and deliver to the person entitled thereto a Right Certificate or Right Certificates, as the case may be, as so requested. The Company may require payment, by the holder of Rights, of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer, split up, combination or exchange of Right Certificates.

(b) Upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Right Certificate, and, in case of loss, theft or destruction, of an indemnity or security reasonably satisfactory to the Company and the Rights Agent, and reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Right Certificate if mutilated, the Company will make and deliver a new Right Certificate of like tenor to the Rights Agent for countersignature and delivery to the registered holder in lieu of the Right Certificate so lost, stolen, destroyed or mutilated.

Section 7. Exercise of Rights; Purchase Price; Expiration Date of Rights. (a) Subject to Sections 11(a)(iii) and (iv), the registered holder of any Right Certificate may exercise the Rights evidenced thereby in whole or in part at any time after the Distribution Date upon surrender of the Right Certificate, with the form of election to purchase and certificate on the reverse side thereof duly executed, to the Rights Agent at its principal office or such other office designated by it for such purpose, together with payment of the Purchase Price for each share of Common Stock (or other securities, cash and/or assets, as the case may be) as to which the Rights are exercised, at or prior to the earliest of (i) the close of business on April 11, 2009 (the "Final Expiration Date"), and (ii) the date and time at which the Rights are redeemed as provided in Section 23 hereof, (iii) the date and time at which the Rights are exchanged as provided in Section 24 hereof, or (iv) the time at which the rights expire pursuant to Section 13(d) (such earliest date and time being referred to herein as the "Expiration Date").

(b) The purchase price (the "Purchase Price") for each share of Common Stock pursuant to the exercise of a Right shall initially be \$40, shall be subject to adjustment from time to time as provided in Sections 11 and 13 hereof and shall be payable in lawful money of the United States of America in accordance with paragraph (c) below.

(c) Except as otherwise provided herein, upon receipt of a Right Certificate representing exercisable Rights, with the form of election to purchase and certificate duly executed, accompanied by payment of the Purchase Price for the shares (or other securities, cash and/or assets, as the case may be) to be purchased and an amount equal to any applicable transfer tax (as determined by the Rights Agent) in cash, or by certified check or bank draft payable to the order of the Company, the Rights Agent shall thereupon promptly

(i) requisition from any transfer agent of the shares of Common Stock (or make available, if the Rights Agent is the transfer agent) certificates for the number of shares of Common Stock to be purchased and the Company hereby irrevocably authorizes such transfer agent to comply with all such requests,

(ii) when appropriate,

requisition from the Company the amount of cash to be paid in lieu of issuance of fractional shares in accordance with Section 14 hereof, (iii) promptly after receipt of such certificates, cause the same to be delivered to or upon the order of the registered holder of such Right Certificate registered in such name or names as may be designated by such holder, and (iv) when appropriate, deliver any such cash, promptly after its receipt, to or upon the order of the registered holder of such Right Certificate. In the event that the Company is obligated to issue other securities of the Company, pay cash and/or distribute other property pursuant to Section 11(a) hereof, the Company will make all arrangements necessary so that such other securities, cash and/or property are available for distribution by the Rights Agent, if and when appropriate. Notwithstanding the foregoing provisions of this Section 7(c), the Company may suspend the issuance of shares of Common Stock or other securities upon exercise of a Right for a reasonable period, not in excess of 90 days, during which the Company seeks to register under the Securities Act of 1933 (the "Act"), as amended, and any applicable securities law of any other jurisdiction, the shares of Common Stock or such other securities to be issued pursuant to the Rights.

(d) In case the registered holder of any Right Certificate shall exercise less than all the Rights evidenced thereby, a new Right Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent to the registered holder of such Right Certificate or to his duly authorized assigns, subject to the provisions of Sections 7(e), 11(a)(iii) and 14 hereof.

(e) Notwithstanding any other provision of this Agreement, neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to a registered holder of any Right Certificate upon the occurrence of any purported transfer or exercise as set forth in this Section 7 unless and until the registered holder shall have completed and signed the certificate contained in the form of election to purchase shares set forth on the reverse side thereof and shall have provided such additional evidence of the identity of the Beneficial Owner and former Beneficial Owner (and Associates and Affiliates of the foregoing) as the Company shall reasonably request.

Section 8. Cancellation and Destruction of Right Certificates. All Right Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or to any of its agents, be delivered to the Rights Agent for cancellation or in cancelled form, or, if surrendered to the Rights Agent, shall be cancelled by it, and no Right Certificate shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Rights Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any other Right Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all cancelled Right Certificates to the Company, or shall, at the written request of the Company, destroy such cancelled Right Certificates, and in such case shall deliver a certificate of destruction thereof to the Company.

Section 9. Reservation and Availability of Capital Stock. (a) The Company covenants and agrees that it will cause to be reserved and kept available out of its authorized and unissued Common Stock or other securities or any Common Stock or other securities held in its treasury, the number of shares of Common Stock or shares of other securities that, as provided in

this Agreement (including Section 11(a) (iv) hereof), will be sufficient to permit the exercise in full of all outstanding Rights.

(b) The Company covenants and agrees that it will take all such action as may be necessary to insure that all Common Stock and/or other securities delivered upon exercise of Rights shall, at the time of delivery of the certificates for such shares (subject to payment of the Purchase Price), be duly and validly authorized and issued and fully paid and nonassessable shares.

(c) The Company covenants and agrees that it will pay when due and payable any and all federal and state transfer taxes and charges which may be payable in respect of the issuance or delivery of the Right Certificates or any Common Stock and/or other securities, as the case may be, upon the exercise of Rights. The Company shall not however, be required to pay any transfer tax which may be payable in respect of any transfer involved in the transfer or delivery of Right Certificates or the issuance or delivery of certificates or depositary receipts for Common Stock and/or other securities, as the case may be, in a name other than that of the registered holder of the Right Certificate evidencing Rights surrendered for exercise or to issue or deliver any certificates or depositary receipts for Common Stock and/or other securities, as the case may be, upon the exercise of any Rights until any such tax shall have been paid (any such tax being payable by the holder of such Right Certificate at the time of surrender) or until it has been established to the Company's satisfaction that no such tax is due.

(d) So long as the Common Stock (and/or other securities) issuable upon the exercise of the Rights may be listed on any national securities exchange, the Company shall use its best efforts to cause, from and after such time as the Rights become exercisable, all shares reserved for such issuance to be listed on such exchange upon official notice of issuance upon such exercise.

(e) The Company shall use its best efforts to (i) file, as soon as practicable following the earliest date after occurrence of the Stock Acquisition Date as of which the consideration to be delivered by the Company upon exercise of the Rights has been determined in accordance with Section 11(a)(iv) hereof, or as soon as is required by law following the Distribution Date, as the case may be, a registration statement under the Act with respect to the securities purchasable upon exercise of the Rights on an appropriate form,

(ii) cause such registration statement to become effective as soon as practicable after such filing and (iii) cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Act and the rules and regulations thereunder) until the earlier of (A) the date as of which the Rights are no longer exercisable for such securities and (B) the expiration of the Rights. The Company will also take such action as may be appropriate to ensure compliance with the securities or "blue sky" laws of the various states. The Company may temporarily suspend, in accordance with applicable law, for a period of time not to exceed 90 days after the date set forth in clause (i) of the first sentence of this Section 9(e), the exercisability of the Rights in order to prepare and file such registration statement and permit it to become effective. Upon any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. Notwithstanding any provision of this Agreement to the contrary, the Rights shall not be exercisable in any jurisdiction if the requisite qualification in such

jurisdiction shall not have been obtained, the exercise thereof shall not be permitted under applicable law or a registration statement shall not have been declared effective.

Section 10. Holders of Record. Each person in whose name any certificate for Common Stock and/or other securities, as the case may be, is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Common Stock and/or other securities, as the case may be, represented thereby on, and such shall be dated, the date upon which the Right Certificate evidencing such Rights was duly surrendered and payment of the Purchase Price (and any applicable transfer taxes) was made; provided, however, that if the date of such surrender and payment is a date upon which the transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding Business Day on which the transfer books of the Company are open. Prior to the exercise of the Rights evidenced thereby, the holder of a Right Certificate shall not be entitled to any rights of a stockholder of the Company with respect to shares for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. Adjustment of Purchase Price, Number of Shares or Number of Rights. The Purchase Price, the number and kind of securities, or fractions thereof, covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a) (i) In the event the Company shall at any time after the date of this Agreement (A) declare or pay a dividend on the Common Stock, payable in shares of Common Stock, (B) subdivide the outstanding shares of Common Stock, (C) combine or consolidate the outstanding shares of Common Stock into a smaller number of shares of Common Stock or (D) issue any shares of its capital stock in a reclassification of the Common Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), except as otherwise provided in this Section 11, the Purchase Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, split, combination, consolidation or reclassification, and the number and kind of shares of capital stock issuable upon exercise of a Right on such date, shall be proportionately adjusted so that the holder of any Right exercised after such time shall be entitled to receive, upon payment of the Purchase Price then in effect, the aggregate number and kind of shares of capital stock which, if such Right had been exercised immediately prior to such date and at a time when the transfer books of the Company were open, such holder would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, split, combination, consolidation or reclassification. If an event occurs which would require an adjustment under both this Section 11(a)(i) and Section 11(a)(ii), the adjustment provided for in this Section 11(a)(i) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 11(a)(ii).

(ii) In the event that a Stock Acquisition Date occurs, proper provision shall be made so that each holder of a Right (except as otherwise provided in clause (iii) below) thereafter shall have the right to receive, upon exercise thereof at the then current

Purchase Price in accordance with the terms of this Agreement, such number of shares of Common Stock of the Company as shall equal the result obtained by (x) multiplying the then current Purchase Price by the then number of shares of Common Stock for which a Right is then exercisable and (y) dividing that product by 50% of the current market price per share of the Common Stock (determined pursuant to Section 11(d) hereof) on the Stock Acquisition Date, and, at the time such provision is made the Company shall cause to be reserved out of its authorized but unissued (or treasury) shares of Common Stock, the lesser of (m) the number of shares of Common Stock that will be sufficient to permit the exercise in full of all outstanding Rights (other than those referred to in clause (iii) below) and (n) the number of shares of Common Stock which are authorized by the Company's certificate of incorporation but not outstanding or reserved for issuance for purposes other than upon exercise of the Rights.

(iii) Notwithstanding any provision of this Agreement, from and after the Stock Acquisition Date, any Rights beneficially owned by (p) an Acquiring Person or any Associate or Affiliate thereof, (q) a transferee of an Acquiring Person (or Associate or Affiliate thereof) who becomes the transferee of such Rights concurrently with such Acquiring Person becoming such or at any time thereafter, or (r) a transferee of an Acquiring Person (or Associate or Affiliate thereof) who becomes a transferee prior to the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether not for consideration) by the Acquiring Person to holders of its stock or other equity or to any Person with whom the Acquiring Person has any continuing agreement, arrangement or understanding, whether or not in writing, regarding the transferred Rights or (B) a transfer which the Board of Directors of the Company has determined is part of a plan, arrangement or understanding, whether or not in writing, which has as a primary purpose or effect the avoidance of this Section 11(a)(iii), shall become null and void, and any existing or subsequent holder of such Rights shall thereafter have no right to exercise such Rights under any provision of this Agreement. Any Right Certificate issued pursuant to Section 3 or Section 22 hereof that represents Rights beneficially owned by any Person referred to in clause (p), (q) or (r) above, and any Right Certificate issued pursuant to Section 6 or Section 11 hereof upon transfer, exchange, replacement or adjustment of any other Right Certificate referred to in this sentence, shall contain (to the extent feasible) the following legend:

The Rights represented by this Right Certificate are or were beneficially owned by a Person who is, was or became an Acquiring Person or an Affiliate or an Associate of an Acquiring Person (as those terms are defined in the Rights Agreement). This Right Certificate and the Rights represented hereby may be or may become null and void in the circumstances specified in the Rights Agreement.

The Company shall use all reasonable efforts to comply with this clause (iii), but neither it nor the Rights Agent shall have any liability to any Person as a result of the failure to make any determination with respect to an Acquiring Person, or its Associates, Affiliates or to transferees of the foregoing.

(iv) In the event that the number of shares of Common Stock which are authorized by the Company's articles of incorporation but not outstanding or reserved for issuance for purposes other than upon exercise of the Rights is not sufficient to permit the exercise in full of the Rights in accordance with the foregoing clause

(ii) of this Section 11(a), the Company shall:

(A) determine the excess of (1) the value (the "Current Value") of the shares of Common Stock issuable upon the exercise of a Right pursuant to the foregoing clause (ii) of this Section 11(a) (assuming that there were a sufficient number of authorized but unissued shares to permit exercise in full of all outstanding Rights for Common Stock) over (2) the then current Purchase Price (such excess being referred to herein as the "Spread"), and

(B) with respect to each Right, to the extent permitted by applicable law and any contractual restrictions binding on the Company, make adequate provision to substitute for such shares of Common Stock issuable upon exercise of a Right pursuant to the foregoing clause (ii) of this Section 11(a), upon payment of the Purchase Price, (1) Common Stock or other equity securities of the Company (including, without limitation, shares, or units of shares, of preferred stock which the Board of Directors of the Company has deemed to have the same value as shares of Common Stock (such shares of preferred stock being referred to herein as "Common Stock Equivalents")), (2) debt securities of the Company, (3) cash, (4) other assets, or (5) any combination of the foregoing (provided, that in making any such provision, Rights shall, to the fullest extent feasible in view of the number of shares of authorized Common Stock not outstanding or reserved for issuance for purposes other than upon exercise of the Rights, be exercisable for Common Stock), in each case having an aggregate value equal to the Current Value, where such aggregate value has been determined by the Board of Directors of the Company based upon the advice of a nationally recognized investment banking firm selected by the Board of Directors of the Company;

provided, however, that if the Company shall not have made adequate provision to deliver value pursuant to clause (B) above within thirty (30) days following the Stock Acquisition Date, then the Company shall be obligated to deliver, upon the surrender for exercise of a Right and without requiring payment of the Purchase Price, shares of Common Stock (to the extent available) and then, if necessary, cash, which shares and/or cash have an aggregate value equal to the Spread. Notwithstanding the immediately preceding sentence, if the Board of Directors of the Company shall determine in good faith that it is likely that sufficient additional shares of Common Stock could be authorized for issuance upon exercise in full of the Rights, the thirty (30) day period set forth above may be extended to the extent necessary, but not to more than ninety (90) days after the Stock Acquisition Date, in order that the Company may seek stockholder approval for the authorization of such additional shares (such period, as may be extended, being referred to herein as the "Substitution Period"). To the extent that the Company determines that some action need be taken pursuant to the first and/or second sentences of this Section 11(a)(iv), the Company (x) shall provide, subject to the foregoing clause (iii) of this Section 11(a), that such action shall apply uniformly to all outstanding Rights and (y) may suspend the exercisability of the Rights until the expiration of the Substitution Period in order to seek any authorization of additional shares and/or

to decide the appropriate form of distribution to be made pursuant to such first sentence and to determine the value thereof. In the event of any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. For purposes of this Section 11(a)(iv), the terms of any Common Stock Equivalent shall be determined so that such Common Stock Equivalent shall have the same value as the Common Stock on the Stock Acquisition Date.

(b) In case the Company shall fix a record date for the issuance of rights, options or warrants to all holders of Common Stock entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase shares of Common Stock (or shares having the same rights, privileges, and preferences as the Common Stock ("equivalent common shares")) or securities convertible into Common Stock or equivalent common shares at a price per share of Common Stock or equivalent common share (or having a conversion price per share, if a security convertible into Common Stock or equivalent common shares) less than the current market price per share of Common Stock (as defined in Section 11(d) hereof) on such record date, the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, of which the numerator shall be the number of shares of Common Stock and equivalent common shares outstanding on such record date plus the number of shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock and/or equivalent common shares to be so offered (and/or the aggregate initial conversion price of the convertible securities to be so offered) would purchase at such current market price an of which the denominator shall be the number of shares of Common Stock and equivalent common shares outstanding on such record date plus the number of additional shares of Common Stock and/or equivalent common shares to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible). In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash the value of such consideration shall be as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent. Common Stock owned by or held for the account of the Company or any of its Subsidiaries shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed; and in the event that such rights, options or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record the date had not been fixed.

(c) In case the Company shall fix a record date for the making of a distribution to all holders of Common Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing or surviving corporation) of evidences of indebtedness or assets (other than a regular periodic cash dividend at a rate per share not in excess of the greater of (x) 200% of the rate of the last periodic cash dividend theretofore paid and (y) \$0.10 per quarter (as such amount may be appropriately adjusted to reflect any stock split, stock dividend, or similar transaction) or a dividend payable in shares of Common Stock) or subscription rights or warrants (excluding those referred to in Section 11(b) hereof), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the

current market price per share of Common Stock (as defined in Section 11(d) hereof) on such record date, less the fair market value (as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent) of the portion of the assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to one share of Common Stock and of which the denominator shall be such current market price per share of Common Stock. Such adjustments shall be made successively whenever such a record date is fixed; and in the event that such distribution is not so made, the Purchase Price shall again be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(d) (i) For the purpose of any computation hereunder, the "current market price" for any security (a "Security" for purposes of this Section 11(d)(i)) on any date shall be deemed to be the average of the daily closing prices per share of such Security for the thirty (30) consecutive Trading Days (as such term is hereinafter defined) immediately prior to such date; provided, however, that in the event that the current market price per share of the Security is determined during a period following the announcement by the issuer of such Security of a dividend or distribution on such Security payable in shares of such Security or securities convertible into (or exercisable or exchangeable for) shares of such Security, or any subdivision, split, combination, consolidation or reclassification of such Security, and prior to the expiration of 30 Trading Days after the ex-dividend date for such dividend or distribution or the record date for such subdivision, split, combination, consolidation or reclassification, then, and in each such case, the current market price shall be appropriately adjusted to reflect ex-dividend or ex-distribution trading. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Security is not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of the Security are listed or admitted to trading or, if the shares of the Security are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or any successor ("NASDAQ") or such other system then in use, or, if on any such date the shares of the Security are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Security selected by the Board of Directors of the Company. If on such date no such market maker is making a market in the Security, the fair value of such shares on such date as determined in good faith by the Board of Directors of the Company shall be used, such determination to be described in a statement filed with the Rights Agent. The term "Trading Day" shall mean a day on which the principal national securities exchange on which the shares of the Security are listed or admitted to trading is open for the transaction of business or, if the shares of the Security are not listed or admitted to trading on any national securities exchange but are quoted on NASDAQ, a day on which NASDAQ is in operation or if the shares of the Security are neither listed nor admitted to trading on any national securities exchange nor quoted on NASDAQ, a Business Day.

(ii) For the purpose of any computation hereunder, the "current market price" of the Common Stock shall be determined in accordance with the method set forth in Section 11(d)(i), except that if the Common Stock is not publicly traded, the "current per share market price" shall mean the fair value per share as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes.

(e) Notwithstanding anything herein to the contrary, no adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least 1% in such price; provided, however that any adjustments which by reason of this Section 11(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest one-thousandth of a share of Common Stock. Notwithstanding the first sentence of this Section 11(e), any adjustment required by this Section 11 shall be made no later than the earlier of (i) three years from the date of the transaction which mandates such adjustment and (ii) the date of the expiration of the right to exercise any Rights.

(f) In the event that at any time, as a result of an adjustment made pursuant to Section 11(a) or Section 13(a), the holder of any Right thereafter exercised shall become entitled to receive any securities other than Common Stock, thereafter the number or amount of such other securities so receivable upon exercise of any Right shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the securities contained in Sections 11(a), (b), (c), (e), (g), (h), (i), (j), (k) and (m), and the provisions of Sections 7, 9, 10, 13 and 14 of this Agreement with respect to the Common Stock shall apply on like terms to any such other securities.

(g) All Rights originally issued by the Company subsequent to any adjustment made to the Purchase Price hereunder shall evidence the right to purchase, at the adjusted Purchase Price, the number of shares of Common Stock purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(h) Unless the Company shall have exercised its election as provided in Section 11(i) of this Agreement, upon each adjustment of the Purchase Price as a result of the calculations made in Sections 11(b) and (c) of this Agreement, each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of shares of Common Stock (calculated to the nearest one-thousandth of a share of Common Stock) obtained by (i) multiplying (x) the number of shares of Common Stock covered by a Right immediately prior to such adjustment by (y) the Purchase Price in effect immediately prior to such adjustment of the Purchase Price and (ii) dividing the product so obtained by the Purchase Price in effect immediately after such adjustment of the Purchase Price.

(i) The Company may elect on or after the date of any adjustment of the Purchase Price to adjust the number of Rights held by each holder of Rights, in substitution for any adjustment in the number of shares of Common Stock purchasable upon the exercise of a Right. Each of the Rights outstanding after such adjustment of the number of Rights shall be

exercisable for the number of shares of Common Stock for which it was exercisable immediately prior to such adjustment. Each holder of a Right held of record prior to such adjustment of the number of Rights shall become the holder of that number of Rights (calculated to the nearest one hundredth) obtained by dividing the Purchase Price in effect immediately prior to adjustment of the Purchase Price by the Purchase Price in effect immediately after adjustment of the Purchase Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made, and information as to the manner in which such adjustment is to be effected. This record date may be the date on which the Purchase Price is adjusted or any day thereafter, but, if the Right Certificates have been issued, shall be at least 10 days later than the date of the public announcement. If Right Certificates have not been issued, in the case of a stock split, stock dividend or similar event, such adjustment in the number of Rights held by each existing holder of Rights shall be effected (unless the Board of Directors otherwise elects), by allocating the adjusted number of Rights proportionately among all shares held by such holder immediately after such stock split, stock dividend or other event. If Right Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(i), the Company shall, as promptly as practicable, cause to be distributed to holders of record of Right Certificates on such record date, Right Certificates evidencing, subject to

Section 14 hereof, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Right Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Right Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Right Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein (and may bear, at the option of the Company, the adjusted Purchase Price) and shall be registered in the names of the holders of record of Right Certificates on the record date specified in the public announcement.

(j) Irrespective of any adjustment or change in the Purchase Price or the number of shares of Common Stock issuable upon the exercise of the Rights, the Right Certificates theretofore and thereafter issued may continue to express the Purchase Price per share of Common Stock and the number of shares of Common Stock which were expressed in the initial Right Certificates issued hereunder.

(k) Before taking any action that would cause an adjustment reducing the Purchase Price below the then par value, if any, of the Common Stock issuable upon exercise of the Rights, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and nonassessable Common Stock at such adjusted Purchase Price.

(l) In any case in which this Section 11 shall require that an adjustment in the Purchase Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event the issuing to the holder of any Right exercised after such record date of the Common Stock and other capital stock or securities of the Company, if any, issuable upon such exercise over and above the Common Stock and other capital stock or securities of the Company, if any, issuable upon such exercise on the basis of the Purchase Price in

effect prior to such adjustment; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares of Common Stock upon the occurrence of the event requiring such adjustment.

(m) Anything in this Section 11 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Purchase Price, in addition to those adjustments expressly required by this

Section 11, as and to the extent that the Company's Board of Directors shall, in its sole discretion, determine to be advisable in order that any (i) consolidation or subdivision of the Common Stock, (ii) issuance wholly for cash of any Common Stock at less than the current market price, (iii) issuance wholly for cash of Common Stock or securities which by their terms are convertible into or exercisable or exchangeable for Common Stock, (iv) Common Stock dividends or

(v) issuance of rights, options or warrants referred to hereinabove in this

Section 11, hereafter made by the Company to holders of its Common Stock shall not be taxable to such stockholders.

(n) The Company covenants and agrees that it shall not, at any time after the Distribution Date, (i) consolidate with any other Person (other than a wholly-owned Subsidiary of the Company in a transaction which does not violate Section 11(o) hereof), (ii) merge with or into any other Person (other than a wholly-owned Subsidiary of the Company in a transaction which does not violate Section 11(o) hereof), or (iii) sell or transfer (or permit any Subsidiary to sell or transfer), in one transaction, or a series of related transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company and/or any of its Subsidiaries in one or more transactions each of which does not violate Section 11(o) hereof), if (x) at the time of or immediately after such consolidation, merger, sale or transfer there are any charter or by-law provisions or any rights, warrants or other instruments or securities outstanding or agreements in effect or other actions taken, which would materially diminish or otherwise eliminate the benefits intended to be afforded by the Rights or (y) prior to, simultaneously with or immediately after such consolidation, merger or sale, the stockholders of the Person who constitutes, or would constitute, the "Principal Party" for purposes of Section 13(a) hereof shall have received a distribution of Rights previously owned by such Person or any of its Affiliates and Associates. The Company shall not consummate any such consolidation, merger, sale or transfer unless prior thereto the Company and such other Person shall have executed and delivered to the Rights Agent a supplemental agreement evidencing compliance with this Section 11(n).

(o) The Company covenants and agrees that, after a Stock Acquisition Date it will not, except as permitted by Section 24 or Section 27 hereof, take (or permit any Subsidiary to take) any action the purpose of which is to, or if at the time such action is taken it is reasonably foreseeable that the effect of such action is to, materially diminish or eliminate the benefits intended to be afforded by the Rights.

Section 12. Certification of Adjusted Purchase Price or Number of Shares. Whenever an adjustment is made as provided in Sections 11 or 13 hereof, the Company shall (a) promptly prepare a certificate setting forth such adjustment and a brief statement of the facts accounting for such adjustment and

(b) promptly file with the Rights Agent and with each transfer agent for the Common Stock a copy such certificate.

Section 13. Consolidation, Merger or Sale or Transfer of Assets or Earning Power. (a) In the event (a "Section 13 Event") that, following the Stock Acquisition Date, directly or indirectly, (x) the Company shall consolidate with, or merge with and into, any Person or Persons, (y) the Company shall consolidate with or merge with and into, any Person or Persons, and the Company shall be the continuing or surviving corporation of such consolidation or merger (other than, in a case of any transaction described in (x) or (y), a merger or consolidation which would result in all of the securities generally entitled to vote in the election of directors ("voting securities") of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into securities of the surviving entity) all of the voting securities of Company or such surviving entity outstanding immediately after such merger or consolidation and holders of such securities not having changed as a result of such merger or consolidation), or (z) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer), in one or a series of related transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole and calculated on the basis of the Company's most recent regularly prepared financial statements) to any Person or Persons (other than the Company or any Subsidiary of the Company in one or more transactions each of which does not violate Section 11(o) hereof), then, and in each such case (except as provided in Section 13(d) hereof), proper provision shall be made so that (i) each holder of a Right, except as provided in Section 11(a)(iii) hereof, shall thereafter have the right to receive, upon the exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement Common Stock and other securities or assets of the Company, such number of validly authorized and issued, fully paid, non-assessable and freely tradeable shares of Common Stock of the Principal Party (as hereinafter defined), not subject to any liens, encumbrances, rights of first refusal or other adverse claims, as shall be equal to the result obtained by (A) multiplying the then current Purchase Price by the number of shares of Common Stock for which a Right was exercisable immediately prior to the first occurrence of a Section 13 Event (without taking into account any adjustment previously made pursuant to Section 11(a)(ii)) and (y) dividing that product by 50% of the current market price per share of the Common Stock of such Principal Party (determined pursuant to Section 11(d) hereof) on the date of consummation of such Section 13 Event; (ii) such Principal Party shall thereafter be liable for, and shall assume, by virtue of such Section 13 Event, all the obligations and duties of the Company pursuant to this Agreement; (iii) the term "Company" shall thereafter be deemed to refer to such Principal Party, it being specifically intended that the provisions of Section 11 hereof shall apply only to such Principal Party following the first occurrence of a Section 13 Event; and (iv) such Principal Party shall take such steps (including, but not limited to, the reservation of a sufficient number of shares of its Common Stock in accordance with Section 9 hereof (applying the provisions thereof with respect to Common Stock of the Company to the Common Stock of such Principal Party)) in connection with such consummation as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be possible, in relation to the shares of its Common Stock thereafter deliverable upon the exercise of the Rights.

(b) "Principal Party" shall mean:

(i) in the case of any transaction described in clause (x) or (y) of the first sentence of Section 13(a):
(A) the Person that is the issuer of any

securities into which Common Shares of the Company are converted in such merger or consolidation, or, if there is more than one such issuer, the issuer of Common Stock of which has the greatest aggregate market value or (B) if no securities are so issued, the Person that is the other party to such merger or consolidation, or, if there is more than one such Person, the Person the Common Stock of which has the greatest aggregate market value (including, if applicable, the Company if it is the surviving corporation); and

(ii) in the case of any transaction described in clause (z) of the first sentence of Section

13(a), the Person that is the party receiving the greatest portion of the assets or earning power transferred pursuant to such transaction or transactions or if the Person receiving the greatest portion of the assets or earning power cannot be determined, whichever of such Persons which is the issuer of Common Stock having the greatest aggregate market value;

provided, however, that in any of the cases described in 13(b)(i) or (b)(ii) above, (1) if the shares of Common Stock of such Person are not at such time and have not been continuously over the preceding twelve (12) month period registered under Section 12 of the Exchange Act, and such Person is a direct or indirect Subsidiary of another Person the shares of Common Stock of which are and have been so registered, "Principal Party" shall refer to such other Person;

(2) in case such Person is a Subsidiary, directly or indirectly, of more than one Person, the shares of Common Stock of two or more of which are and have been so registered, "Principal Party" shall refer to whichever of such Persons is the issuer of the shares of Common Stock having the greatest aggregate market value; and (3) in case such Person is owned, directly or indirectly, by a joint venture formed by two or more Persons that are not owned, directly or indirectly, by the same Person, the rules set forth in (1) and (2) above shall apply to each of the chains of ownership having an interest in such joint venture as if such party were a "Subsidiary" of both or all of such joint ventures and the Principal Parties in each such chain shall bear the obligations set forth in this Section 13 in the same ratio as their direct or indirect interests in such Person bear to the total of such interests.

(c) The Company shall not consummate any such consolidation, merger, sale or transfer unless the Principal Party shall have a sufficient number of its authorized shares of Common Stock which have not been issued or reserved for issuance to permit the exercise in full of the Rights in accordance with this Section 13 and unless prior thereto the Company and such Principal Party shall have executed and delivered to the Rights Agent a supplemental agreement providing for the terms set forth in paragraphs (a) and (b) of this Section 13 and that all rights of first refusal or preemptive rights in respect of the issuance of shares of Common Stock of the Principal Party upon exercise of the outstanding Rights have been waived and that such transaction shall not result in a default by the Principal Party under this Agreement, and further providing that, as soon as practicable after the date of any consolidation, merger, sale or transfer mentioned in paragraph (a) of this Section 13, the Principal Party at its own expense shall:

(i) prepare and file a registration statement under the Act with respect to the Rights and the securities purchasable upon the exercise of the Rights on an appropriate form, and use its best efforts to cause such registration

statement to become effective as soon as practicable after such filing and to remain effective (with a prospectus at all times meeting the requirements of the Act) until the Final Expiration Date;

(ii) use its best efforts to qualify or register the Rights and the securities purchasable upon exercise of the Rights under the blue sky laws of such jurisdictions as may be necessary or appropriate;

(iii) deliver to holders of the Rights historical financial statements for the Principal Party which comply in all respects with the requirements for registration on Form 10 under the Exchange Act; and

(iv) use its best efforts to list (or continue the listing of) the Rights and the securities purchasable upon exercise of the Rights on a national securities exchange or to meet the eligibility requirement for quotation on NASDAQ.

The provisions of this Section 13 shall similarly apply to successive mergers or consolidations or sales or other transfers. In the event that a Section 13 Event shall occur at any time after the occurrence of a Stock Acquisition Date, the Rights which have not theretofore been exercised pursuant to Section 11(a)(ii) shall thereafter become exercisable in the manner described in Section 13(a).

(d) Notwithstanding anything in this Agreement to the contrary, Section 13 shall not be applicable to a transaction described in subparagraphs (x) and (y) of Section 13(a) if: (i) such transaction is consummated with a Person or Persons who acquired Common Stock pursuant to an Approved Offer (or an Affiliate of any such Person or Persons) as promptly as reasonably practical (and in any event within one year) following consummation of such Approved Offer; (ii) the price per share of Common Stock offered in such transaction is not less than the price per share of Common Stock paid to all holders of Common Stock whose shares were purchased pursuant to such Approved Offer; and (iii) the form of consideration offered in such transaction is the same as the form of consideration paid pursuant to such Approved Offer. Upon consummation of any such transaction contemplated by this Section 13(d), all Rights hereunder shall expire.

(e) In case the Principal Party which is to be a party to a transaction referred to in this Section 13 has provision in any of its authorized securities or in its Certificate of Incorporation or By-Laws or other instrument governing its corporate affairs, which provision would have the effect of (i) causing such Principal Party to issue, in connection with, or as a consequence of, the consummation of a transaction referred to in this Section 13, shares of Common Stock of such Principal Party at less than the then current market price per share (determined pursuant to Section 11(d) hereof) or securities exercisable for, or convertible into, Common Stock of such Principal Party at less than such then current market price (other than to holders of Rights pursuant to this Section 13) or (ii) providing for any special payment, tax or similar provisions in connection with the issuance of the Common Stock of such Principal Party pursuant to the provisions of Section 13, then, in such event, the Company shall not consummate any such transaction unless prior thereto the Company and such Principal Party shall have

executed and delivered to the Rights Agent a supplemental agreement providing that the provision in question of such Principal Party shall have been canceled, waived or amended, or that the authorized securities shall be redeemed, so that the applicable provision will have no effect in connection with, or as a consequence of, the consummation of the proposed transaction.

Section 14. Fractional Rights and Fractional Shares. (a) The Company shall not be required to issue fractions of Rights (except, prior to the Distribution Date, as provided in Section 11 hereof) or to distribute Right Certificates which evidence fractional Rights. In lieu of such fractional Rights, there shall be paid to the registered holders of the Right Certificates with regard to which such fractional Rights would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole Right. For the purposes of this Section 14(a), the current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately prior to the date on which such fractional Rights would have been otherwise issuable. The closing price of the Rights for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Rights are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Rights are listed or admitted to trading or, if the Rights are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by NASDAQ or such other system then in use or, if on any such date the Rights are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Rights, as selected by the Board of Directors of the Company. If on any such date the Rights are not quoted by any such organization and no professional market maker is making such a market in the Rights, the fair value of the Rights on such date as determined in good faith by the Board of Directors of the Company shall be used.

(b) Following the occurrence of the Stock Acquisition Date or a Section 13 Event, the Company shall not be required to issue fractions of shares of its Common Stock upon exercise of the Rights or to distribute certificates which evidence fractional shares of its Common Stock. In lieu of fractional shares of its Common Stock, the Company may pay to the registered holders of Right Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of one share of Common Stock. For purposes of this Section 14(b), the current market value of a share of Common Stock shall be the closing price of one share of Common Stock of the Company (as determined pursuant to the second sentence of Section 11(d)(i) hereof) for the Trading Day immediately prior to the date of such exercise.

(c) The holder of a Right by the acceptance thereof expressly waives any right to receive any fractional Rights or any fractional shares upon exercise of a Right (except as provided above).

Section 15. Rights of Action. All rights of action in respect of this Agreement, other than the rights of action vested in the Rights Agent pursuant to Section 18, are vested in the respective registered holders of the Right Certificates (and, prior to the Distribution Date, the registered holders of the Common Stock); and any registered holder of any Right Certificate (or, prior to the Distribution Date, of the Common Stock), without the consent of the Rights Agent or of the holder of any other Right Certificate (or, prior to the Distribution Date, any holder of the Common Stock), may, on his own behalf and for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his right to exercise the Rights evidenced by such Right Certificate in the manner provided in such Right Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of the obligations of any Person subject to, this Agreement.

Section 16. Agreement of Right Holders. Every holder of a Right by accepting the same, consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

- (a) prior to the Distribution Date, the Rights will be transferable only simultaneously and together with the transfer of Common Stock;
- (b) after the Distribution Date, the Right Certificates are transferable only on the registry books of the Rights Agent if surrendered at the principal office or such other office of the Rights Agent designated for such purpose, duly endorsed or accompanied by a proper instrument of transfer and with the appropriate forms and certificates fully executed;
- (c) subject to Section 6, Section 7(e) and Section 11(a) hereof, the Company and the Rights Agent may deem and treat the person in whose name the Right Certificate (or, prior to the Distribution Date, the associated Common Stock certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Right Certificates or the associated Common Stock certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary; and
- (d) notwithstanding anything in this Agreement to the contrary, neither the Company nor the Rights Agent shall have any liability to any holder of a Right or other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation; provided, however, that the Company must use its best efforts to have any such injunction, order, decree or ruling lifted, dissolved or otherwise overturned as soon as possible.

Section 17. Right Certificate Holder Not Deemed a Stockholder. No holder, as such, of any Right Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of shares of Common Stock or any other securities of the Company which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Right Certificate be construed to confer upon the holder of any Right Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in Section 25 of this Agreement), or to receive dividends or other distributions or to exercise any preemptive or subscription rights, or otherwise, until the Right or Rights evidenced by such Right Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. Concerning the Rights Agent. The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability or expense, incurred without negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability.

The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its administration of this Agreement in reliance upon any Right Certificate or certificate for shares of Common Stock or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper person or persons.

Section 19. Merger or Consolidation or Change of Name of Rights Agent. Any corporation into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any corporation succeeding to the corporate trust or stock transfer business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of

Section 21 hereof. In case at the time such successor Rights Agent shall succeed to the agency created by this Agreement, any of the Right Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Right Certificate so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, any successor Rights Agent may countersign such Right Certificate either in the name of the predecessor Rights Agent

or in the name of the successor Rights Agent; and in all such cases such Right Certificate shall have the full force provided in the Right Certificate and in this Agreement.

In case at any time the name of the Rights Agent shall be changed and at such time any of the Right Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Right Certificates so countersigned; and in case at that time the Rights Agent may countersign such Right Certificates either in its prior name or in its changed name; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes the duties and obligations expressly set forth in this Agreement, and no implied duties or obligations shall be read into this Agreement against the Rights Agent. The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Right Certificates, by their acceptance thereof, shall be bound:

- (a) The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.
- (b) Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter (including, without limitation, the identity of any Acquiring Person or any Affiliate or Associate thereof) be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the Chairman of the Board, President and Chief Executive Officer or the Vice President-Treasurer and Secretary or the Assistant Treasurer or the Assistant Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.
- (c) The Rights Agent shall be liable hereunder only for its own negligence, bad faith or willful misconduct.
- (d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Right Certificates (except its countersignature thereof), or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.
- (e) The Rights Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Right Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Right

Certificate; nor shall it be responsible for any change in the exercisability of the Rights (including Rights becoming null and void pursuant to Section 11(a)(iii) hereof); nor shall it be responsible for any adjustment required under the provisions of Sections 11 or 13 hereof or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights evidenced by Right Certificates after actual notice of any such adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of Common Stock or other securities to be issued pursuant to this Agreement or any Right Certificate or as to whether any Common Stock or other securities will, when issued, be validly authorized and issued, fully paid and nonassessable.

(f) The Company agrees that it will inform the Rights Agent promptly upon the Company's determination that a Person has become an Acquiring Person and the Rights Agent will not be responsible for determining the status of a Person as an Acquiring Person prior to such notification except as such status may be indicated in the assignment or election to purchase of a Right Certificate. The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from the Chairman of the Board, President and Chief Executive Officer, or the Vice President-Treasurer and Secretary of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered to be taken by it in good faith in accordance with instructions of any such officer.

(h) The Rights Agent and any stockholder, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other legal entity.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

(j) If, with respect to any Right Certificate surrendered to the Rights Agent for exercise or transfer, the certificate attached to the form of assignment or form of election

to purchase, as the case may be, has either not been completed or indicates an affirmative response to any item therein, the Rights Agent shall not take any further action with respect to such requested exercise or transfer without first consulting with the Company.

Section 21. Change of Rights Agent. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon 30 days' notice in writing mailed to the Company and to each transfer agent of the Common Stock by registered or certified mail, and to the holders of the Right Certificates by first class mail. The Company may remove the Rights Agent or any successor Rights Agent upon 30 days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Stock by registered or certified mail, and to the holders of the Right Certificates by first class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of 30 days after such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Right Certificate (who shall, with such notice, submit his Right Certificate for inspection by the Company), then the registered holder of any Right Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be (i) a corporation, bank or trust company organized and doing business under the laws of the United States or of any state thereof, in good standing, having its principal office in the United States of America, which is authorized under applicable laws to exercise corporate trust or stock transfer powers and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$50,000,000 or (ii) an Affiliate of a corporation described in clause (i) of this sentence. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall, upon payment of its charges, deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Stock, and mail a notice thereof in writing to the registered holders of the Right Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be. Notwithstanding the foregoing provision, in the event of resignation, removal or incapacity of the Rights Agent, the Company shall have the authority to act as the Rights Agent until a successor Rights Agent shall have assumed the duties of the Rights Agent hereunder.

Section 22. Issuance of New Right Certificates. Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Right Certificates evidencing Rights in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Purchase Price and the number or kind or class of shares of stock or other securities or property purchasable under the Right Certificates made in accordance with the provisions of this Agreement.

In addition, in connection with the issuance or sale of shares of Common Stock following the Distribution Date (other than upon exercise or exchange of a Right) and prior to the Expiration Date, the Company, subject to Section 11(a)(iii) hereof, (a) shall, with respect to shares of Common Stock so issued or sold pursuant to the exercise of stock options or under any employee plan or arrangement, or upon the exercise, conversion or exchange of securities, notes or debentures issued by the Company, and (b) may, in any other case, if deemed necessary or appropriate by the Board of Directors, issue Right Certificates representing the appropriate number of Rights in connection with such issuance or sale; provided, however, that (i) the Company shall not be obligated to issue any Right Certificate if, and to the extent that, the Company shall be advised by counsel that such issuance would create a significant risk of material adverse tax consequences to the Company or the Person to whom such Rights Certificate would be issued, and (ii) no such Rights Certificate shall be issued if, and to the extent that, appropriate adjustment shall otherwise have been made in lieu of the issuance thereof.

Section 23. Redemption. (a) The Company may, by resolution of its Board of Directors, at its option, at any time prior to the earlier of (x) the Stock Acquisition Date or (y) the close of business on the Final Expiration Date, redeem all but not less than all of the then outstanding Rights at a redemption price of \$0.01 per Right, as such amount may be appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date of this Amended and Restated Rights Agreement (such redemption price being hereinafter referred to as the "Redemption Price"); provided, however, that in the event that a redemption of the Rights is proposed, requested or considered at a time at which any Person (a "Proposed Acquiror") has proposed or publicly announced an intention to propose a transaction that, if consummated, would cause a Stock Acquisition Date or any of the events listed in Sections 13(a), (b) or (c) to occur, the Board of Directors may only act to redeem the rights upon the prior recommendation of a majority of its Independent Directors at a time at which there are at least two Independent Directors. "Independent Director" shall mean any member of the Board of Directors of the Company who is not a proposed Acquiror or an Affiliate, Associate, representative or nominee of a Proposed Acquiror and who is not an officer or employee of the Company or any of its Subsidiaries. The redemption of Rights by the Board of Directors shall be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish. The Company may, at its option, pay the Redemption Price in cash, shares of Common Stock (based on the "current market price", as defined in Section 11(d)(i) hereof, of the Common Stock at the time of such Board resolution) or any other form of consideration deemed appropriate by the Board of Directors.

(b) Immediately upon adoption of an effective resolution of the Board of Directors of the Company ordering the redemption of the Rights in compliance with Section 23(a) (or upon the subsequent satisfaction of all conditions to such redemption established by such resolution), evidence of which shall have been filed with the Rights Agent, and without any further action and without any notice, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price. Within 10 Business Days after the action of the Board of Directors ordering the redemption of the Rights (or such subsequent satisfaction of all such conditions), the Company shall give notice of such redemption to the holders of the then outstanding Rights by mailing such notice to all such holders at their last addresses as they appear upon the registry books of the Rights Agent or, prior

to the Distribution Date, on the registry books of the transfer agent for the Common Stock. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made. Neither the Company nor any of its Affiliates or Associates may redeem, acquire or purchase any Rights at any time in any manner other than that specifically set forth in this Section 23, and other than in connection with the repurchase of Common Stock of the Company prior to the Distribution Date.

(c) In the event that the Board of Directors adopts an effective resolution ordering the redemption of the Rights in compliance with Section 23(a), the Company may, at its option, discharge all of its obligations with respect to the Rights by (i) issuing a press release announcing the manner of redemption of the Rights in accordance with this Agreement and (ii) mailing payment of the Redemption Price to the registered holders of the Rights at their last addresses as they appear on the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the transfer agent of the Common Stock, and upon such action, all outstanding Rights and Right Certificates shall be null and void without any further action by the Company.

Section 24. Exchange. (a) The Board of Directors of the Company may, at its option, at any time after the Stock Acquisition Date exchange all or part of the then-outstanding and exercisable Rights (which shall not include Rights that have become void pursuant to the provisions of Section

11(a)(iii) hereof) for Common Stock (or Common Stock Equivalents) at an exchange ratio of one share of Common Stock per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date of this Amended and Restated Rights Agreement (such exchange ratio being hereinafter referred to as the "Exchange Ratio") (provided that if there is then a Proposed Acquiror, the Rights may not be exchanged without the prior recommendation of a majority of its Independent Directors at a time at which there are at least two Independent Directors). Notwithstanding the foregoing, the Board of Directors of the Company shall not be empowered to effect such exchange at any time after any Person (other than a Company Entity), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of 50% or more of the Common Stock then outstanding.

(b) Immediately upon the action of the Board of Directors of the Company ordering the exchange of Rights pursuant to and in compliance with subsection (a) of this Section 24 and without any further action and without any notice, the right to exercise such Rights shall terminate and the only right thereafter of a holder of such Rights, which excludes Rights that have become void pursuant to the provisions of Section 11(a)(iii) hereof, shall be to receive that number of shares of Common Stock, or Common Stock Equivalents, equal to the number of such Rights held by such holder multiplied by the Exchange Ratio. The Company shall promptly file notice of such Board action with the Rights Agent and give public notice of any such exchange; provided, however, that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. The Company shall promptly mail a notice of any such exchange to all of the holders of such Rights at their last addresses as they appear upon the registry books of the Rights Agent. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of the Common Stock for Rights will be effected and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be

effected pro rata based on the number of Rights (other than Rights which have become void pursuant to the provisions of Section 11(a)(iii)) held by each holder of Rights.

(c) In the event that there shall not be sufficient shares of Common Stock issued but not outstanding or authorized but unissued to permit any exchange of Rights as contemplated in accordance with this Section 24, the Company shall take all such action as may be necessary to authorize additional Common Stock for issuance upon exchange of the Rights.

(d) The Company shall not be required, pursuant to this Section 24, to issue shares of Common Stock or to distribute certificates which evidence fractional shares of Common Stock. In lieu of such fractional shares of Common Stock, the Company shall pay to the registered holders of the Right Certificates, with regard to which such fractional shares of Common Stock would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole share of Common Stock. For the purposes of this paragraph (d), the current market value of a whole share of Common Stock shall be the closing price of a share of Common Stock (as determined pursuant to the second sentence of Section 11(d)(i) hereof) for the Trading Day immediately prior to the date of exchange pursuant to this Section 24, and the value of any Common Stock Equivalent shall be deemed to have the same current market value as the Common Stock on such date.

Section 25. Notice of Certain Events. In case the Company shall propose, at any time after the Distribution Date, (a) to pay any dividend payable in stock of any class to the holders of its Common Stock or to make any other distribution described to the holders of its Common Stock (other than a regular quarterly cash dividend at a rate per share not in excess of the greater of (x) 200% of the rate of the last quarterly dividend theretofore paid and (y) \$0.10 per quarter (as such amount may be appropriately adjusted to reflect any stock split, stock dividend, or similar transaction)), or (b) to offer to the holders of its Common Stock rights, options or warrants to subscribe for or to purchase any additional Common Stock or securities convertible into Common Stock, or (c) to effect any reclassification of its Common Stock (other than a reclassification involving only the subdivision of outstanding Common Stock) or any other event described in Section 11(a)(i) hereof, or (d) to effect any merger, consolidation or other combination into or with any Person (other than a Subsidiary of the Company in a transaction which does not violate Section 11(o) hereof), or to effect any sale or other transfer (or to permit one or more of its Subsidiaries to effect any sale or other transfer), in one or more transactions, of more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any Person or Persons (other than the Company and/or any of its Subsidiaries in one or more transactions each of which does not violate Section 11(o) hereof), or (e) to effect the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall give to each holder of a Right, in accordance with Section 26 hereof, a notice of such proposed action to the extent feasible and file a certificate with the Rights Agent to that effect, which shall specify the record date for the purposes of such stock dividend, distribution of rights or Rights, or the date on which such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution, or winding up is to take place and the date of participation therein by the holders of Common Stock, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (a) or (b) above at least twenty (20) days prior to the record date for determining holders of the Common Stock for purposes of such action, and in the case of any

such other action, at least twenty (20) days prior to the date of the taking of such proposed action or the date of participation therein by the holders of Common Stock, whichever shall be earlier.

(b) The Company shall, on the Stock Acquisition Date, or as soon as practicable thereafter, give each holder of a Right, in accordance with Section 26 hereof, a notice of the occurrence of such event, which notice shall describe the event and the consequences of such event to holders of Rights under Sections 11(a)(ii), (iii) and (iv) hereof. The failure to give notice required by this Section 25 or any defect therein shall not affect the legality or validity of the action taken by the Company or the vote upon any such action.

Section 26. Notices. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Right Certificate to or on the Company shall be sufficiently given or made if sent by first class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

Southwestern Energy Company 1083 Sain Street
P.O. Box 1408
Fayetteville, Arkansas 72703 Attention: Chief Executive Officer

Subject to the provisions of Section 21, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Right Certificate to or on the Rights Agent shall be sufficiently given or made if sent by first class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

First Chicago Trust Company of New York 525 Washington Boulevard Suite 4660
Jersey City, New Jersey 07311 Attention: Corporate Actions Administration

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Right Certificate (or, if prior to the Distribution Date, to the holder of any certificate for shares of Common Stock) shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 27. Supplements and Amendments. The Company and the Rights Agent shall, if the Company so directs, from time to time supplement or amend this Agreement without the approval of any holders of Rights in order (i) to cure any ambiguity, (ii) to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein (provided that any amendment made pursuant to clause (i) or (ii) hereof after a Stock Acquisition Date or at any time that there is a Proposed Acquiror, shall not materially adversely affect the interests of the holders of Right Certificates (other than an Acquiring Person, a Proposed Acquiror or any Affiliate or Associate thereof)), (iii) prior to the Stock Acquisition

Date, to effect any other change or modification which the Company may deem necessary or desirable (provided that if there is then a Proposed Acquiror, this Agreement may not be amended pursuant to this Section 27(iii) without the prior recommendation of a majority of Independent Directors at a time at which there are at least two Independent Directors), or (iv) after the Stock Acquisition Date or at any time that there is a Proposed Acquiror, to make any other provisions in regard to matters or questions arising hereunder which the Company may deem necessary or desirable and which shall not adversely affect the interests of the holders of Right Certificates (other than an Acquiring Person, a Proposed Acquiror or any Affiliate or Associate thereof). Notwithstanding anything contained in this Agreement to the contrary, this Agreement may not be amended or supplemented (x) to reinstate a right of redemption if the Rights are not then redeemable or (y) to decrease the Redemption Price. Upon the delivery of a certificate from an appropriate officer of the Company which states that the proposed supplement or amendment has been approved by the Company's Board of Directors and is in compliance with the terms of this Section 27, the Rights Agent shall execute such supplement or amendment; provided, however, that the Rights Agent may, but shall not be obligated to, enter into any such supplement or amendment that adversely affects its rights, duties or immunities under this Agreement. Prior to the Distribution Date, the interests of the holders of Rights shall be deemed to coincide with the interests of holders of shares of Common Stock (other than an Acquiring Person, an Adverse Person, a Proposed Acquiror or any Affiliate or Associate thereof).

Section 28. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any person or corporation other than the Company, the Rights Agent and the registered holders of the Right Certificates (and, prior to the Distribution Date, of the Common Stock of the Company) any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Right Certificates (and, prior to the Distribution Date, of the Common Stock of the Company).

Section 30. Severability. If any term, provision, covenant or restriction of this Agreement or the Rights is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of this Agreement and the Rights shall remain in full force and effect and shall in no way be affected, impaired or invalidated; provided, however, that notwithstanding anything in this Agreement to the contrary, if any such term, provision, covenant or restriction is held by such court or authority to be invalid, void or unenforceable and the Board of Directors of the Company determines in its good faith judgment that severing the invalid language from this Agreement would adversely affect the purpose or effect of this Agreement, the right of redemption set forth in Section 23 hereof shall be reinstated and shall not expire until the close of business on the tenth Business Day following the date of such determination by the Board of Directors.

Section 31. Determinations and Actions by the Board of Directors, etc. The Board of Directors of the Company shall have the exclusive power and authority to administer

this Agreement and to exercise all rights and powers specifically granted to the Board of Directors or to the Company, or as may be necessary or advisable in the administration of this Agreement, including, without limitation, the right and power to (i) interpret the provisions of this Agreement, and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement (including, without limitation, a determination to redeem or not to redeem the Rights pursuant to Section 23 hereof or to supplement or amend the Agreement and whether any proposed supplement or amendment adversely affects the interests of the holders of Right Certificates and comports with the requirements of Section 27 hereof or to find or to announce publicly that any Person has become an Acquiring Person, an Adverse Person or Proposed Acquiror). For all purposes of this Agreement, any calculation of the number of shares of Common Stock or other securities outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding shares of Common Stock or any other securities of which any Person is the Beneficial Owner, shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i) of the General Rules and Regulations under the Exchange Act as in effect on the date of this Agreement. All such actions, calculations, interpretations and determinations (including for purpose of clause (y) below, all omissions with respect to the foregoing) which are done or made by the Board of Directors of the Company in good faith, shall (x) be final, conclusive and binding on the Company, the Rights Agent, the holders of the Rights and all other parties, and (y) not subject the Board of Directors or any director to any liability to the holders of the Rights.

Section 32. Governing Law. This Agreement and each Right Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Arkansas and for all purposes shall be governed by and construed in accordance with the laws of such state applicable to contracts to be made and performed entirely within such state.

Section 33. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 34. Descriptive Headings. Descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and their respective corporate seals to be hereunto affixed and attested, all as of the date and the year first above written.

Attest:

By: /s/ JEFF DANGEAU

Jeff Dangeau
Assistant Secretary

OF

Attest:

By: /s/ MARY E. GARCIA

Mary E. Garcia
Customer Service Officer

SOUTHWESTERN ENERGY COMPANY

By: /s/ GREG D. KERLEY

Greg D. Kerley
Senior Vice President and
Chief Financial Officer

FIRST CHICAGO TRUST COMPANY

NEW YORK

By: /s/ JOANNE GOROSTIOLA

Joanne Gorostiola
Assistant Vice President

EXHIBIT A

(Form of Right Certificate)

Certificate No. R- _____ Rights

NOT EXERCISABLE AFTER APRIL 11, 2009 OR EARLIER IF NOTICE OF REDEMPTION IS GIVEN. THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF THE COMPANY AT \$.01 PER RIGHT ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT UNDER CERTAIN CIRCUMSTANCES, RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR ANY ASSOCIATES OR AFFILIATES THEREOF (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) OR ANY SUBSEQUENT HOLDER OF SUCH RIGHTS MAY BECOME NULL AND VOID.

[THE RIGHTS REPRESENTED BY THIS RIGHT CERTIFICATE ARE OR WERE BENEFICIALLY OWNED BY A PERSON WHO IS, WAS OR BECAME AN ACQUIRING PERSON OR AN AFFILIATE OR AN ASSOCIATE OF AN ACQUIRING PERSON (AS THOSE TERMS ARE DEFINED IN THE RIGHTS AGREEMENT). THIS RIGHT CERTIFICATE AND THE RIGHTS REPRESENTED HEREBY MAY BECOME NULL AND VOID IN THE CIRCUMSTANCES SPECIFIED IN THE RIGHTS AGREEMENT.]¹

Right Certificate

SOUTHWESTERN ENERGY COMPANY

This certifies that , or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Amended and Restated Rights Agreement dated as of April 12, 1999 (the "Rights Agreement") between Southwestern Energy Company, an Arkansas corporation (the "Company"), and The First National Bank of Chicago (the "Rights Agent"), to purchase from the Company at any time after the Distribution Date and prior to 5:00 P.M. (New York City time) on the Expiration Date (as such terms are defined in the Rights Agreement) at the principal office or such other office of the Rights Agent designated for such purpose, or of its successors as Rights Agent, one fully-paid, nonassessable share of Common Stock, \$0.10 par value (the "Common Stock") of the Company, at a purchase price of \$40 per share of Common Stock (the "Purchase Price"), upon presentation and surrender of this Right Certificate with the appropriate Form of Election to Purchase Shares duly executed. The number of Rights evidenced

[FN]

¹ The portion of the legend in brackets shall be inserted only if applicable and shall replace the preceding sentence.

by this Right Certificate and the number of shares which may be purchased upon exercise hereof) set forth above, and the Purchase Price set forth above, have been determined as of April 7, 1999.

As provided in the Rights Agreement, the Purchase Price and the number of shares of Common Stock or other securities which may be purchased upon the exercise of the Rights evidenced by this Right Certificate are subject to modification and adjustment upon the happening of certain events, and in certain circumstances may be exercised to purchase securities of issuers other than the Company.

This Right Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Right Certificates. Copies of the Rights Agreement are on file at the above mentioned office of the Rights Agent and are available free of charge upon written request from the Company at:

Southwestern Energy Company 1083 Sain Street
P.O. Box 1408
Fayetteville, Arkansas 72703 Attention: Chief Executive Officer

This Right Certificate, with or without other Right Certificates, upon surrender at the office of the Rights Agent, may be exchanged for another Right Certificate or Right Certificates of like tenor and date evidencing Rights entitling the holder to purchase a like aggregate number of shares of Common Stock as the Rights evidenced by the Right Certificate or Right Certificates surrendered shall have entitled such holder to purchase. If this Right Certificate shall be exercised in part, the holder shall be entitled to receive, upon surrender hereof, another Right Certificate or Right Certificates for the number of whole Rights not exercised.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Right Certificate may be redeemed by the Company at a redemption price of \$.01 per Right (payable in cash, shares of Common Stock or other consideration), appropriately adjusted to reflect any Common Stock split, Common Stock dividend or similar transaction occurring after the date hereof.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Right Certificate (and the Rights Agreement itself) may be amended by action of the Company's Board of Directors.

No fractional shares of Common Stock will be issued upon the exercise of any Right or Rights evidenced hereby, but in lieu thereof a cash payment will be made, as provided in the Rights Agreement.

No holder of this Right Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of shares of Common Stock or of any other securities of the Company which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Right Certificate shall have been exercised as provided in the Rights Agreement.

This Right Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Company and its corporate seal. Dated as of _____, _____.

Attest:
COMPANY

SOUTHWESTERN ENERGY

By: _____
By _____
Secretary

Title:

Countersigned:
FIRST CHICAGO TRUST COMPANY OF
NEW YORK

By: _____
Authorized Signature

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FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Right Certificate)

FOR VALUE RECEIVED _____ hereby sells, assigns and transfers unto

(Please print name and address of transferee)

this Right Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer the within Right Certificate on the books of the within-named Company, with full power of substitution.

DATED: _____, _____

Signature

Signature Guaranteed:

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Certificate

The undersigned hereby certifies by checking the appropriate boxes that:

(1) this Right Certificate is is not being sold, assigned and transferred by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Acquiring Person (as such terms are defined pursuant to the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it did did not acquire the Rights evidenced by this Right Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate of an Acquiring Person.

Dated: _____, _____ Signature

Signature Guaranteed:

NOTICE

The signature of the foregoing Assignment must correspond to the name as written upon the face of this Right Certificate in every particular, without alteration or enlargement or any change whatsoever.

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FORM OF ELECTION TO PURCHASE SHARES

(To be executed if holder desires to
exercise the Right Certificate)

To Southwestern Energy Company:

The undersigned hereby irrevocably elects to exercise _____ Rights represented by this Right Certificate to purchase the Common Stock of the Company (or such other securities of the Company or any other person) and requests that certificates for such Common Stock be issued in the name of:

Please insert social security or other identifying number

(Please print name and address)

If such number of Rights shall not be all the Rights evidenced by this Right Certificate, a new Right Certificate for the balance remaining of such Rights shall be registered in the name of and delivered to:

Please insert social security or other identifying number

(Please print name and address)

Dated: _____, _____

Signature

Signature Guaranteed:

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Certificate

The undersigned hereby certifies by checking the appropriate boxes that:

(1) the Rights evidenced by this Right Certificate [] are [] are not being exercised by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Acquiring Person (as such terms are defined pursuant to the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it [] did [] did not acquire the Rights evidenced by this Right Certificate from any Person who is, was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person.

Dated: _____, _____ Signature

Signature Guaranteed:

NOTICE

The signature to the foregoing Election to Purchase must correspond to the name as written upon the face of this Right Certificate in every particular, without alteration or enlargement or any change whatsoever.

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Exhibit B

SOUTHWESTERN ENERGY COMPANY

SUMMARY OF RIGHTS TO PURCHASE COMMON STOCK

On April 7, 1999, the Board of Directors of Southwestern Energy Company (the "Company") adopted an Amended and Restated Rights Agreement, dated as of April 12, 1999 (the "Rights Agreement"), between the Company and First Chicago Trust Company of New York as Rights Agent, that amends the terms of the outstanding rights (the "Rights") previously issued. The Rights are currently evidenced (on the basis of one right for each outstanding share) by the existing certificates for outstanding shares of common stock, \$0.10 par value, of the Company (the "Common Stock") and are not exercisable and do not trade separately from such shares. The Summary describes the rights as so amended.

Each Right, when exercisable, will entitle the registered holder to purchase from the Company one share of the Company's Common Stock at a price of \$40 per share (the "Purchase Price"), subject to adjustment.

Until the close of business on the earliest of: (i) the tenth day after a public announcement that (A) a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership ("Beneficial Ownership") of 15% or more of the outstanding shares of Common Stock of the Company (other than pursuant to a tender offer for all outstanding shares of Common Stock at the price and on terms approved by the Board of Directors based upon a prior recommendation of the Independent Directors at a time when there are at least two Independent Directors or solely as a result of a reduction of the number of shares of Common Stock outstanding due to a repurchase of shares by the Company), (B) any person or group which beneficially owned 15% of the outstanding shares on the date of the Rights Agreement, or which acquired beneficial ownership of 15% of the outstanding shares as a result of any repurchase of shares by the Company, thereafter acquired beneficial ownership of additional shares constituting 1% or more of the outstanding shares of Common Stock or (C) the Board of Directors determines that a holder of 10% or more of the Common Stock is an Adverse Person (each, an "Acquiring Person"); and (ii) the tenth Business Day (or such later day as may be determined by action of the Board of Directors of the Company prior to such time as any Person becomes an Acquiring Person) after the date of the commencement of, or the first public announcement of the intent of any person (other than a Company Entity (as defined in the Rights Agreement)) to commence (which intention to commence remains in effect for five business days after such announcement) a tender or exchange offer by any Person (other than a Company Entity) to acquire (when added to any shares as to which such Person is the Beneficial Owner immediately prior to such commencement) beneficial ownership of 15% or more of the issued and outstanding shares of Common Stock (the earlier of such dates being called the "Distribution Date"), the Rights will be evidenced, with respect to any of the Company's Common Stock certificates outstanding as of the Record Date, by such Common Stock certificate and this Summary.

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The Rights Agreement provides that, until the Distribution Date, the Rights will be transferred with and only with the Common Stock. New Common Stock certificates issued after the Record Date upon transfer or new issuance of the Common Stock will contain a notation incorporating the Rights Agreement by reference. Until the Distribution Date, the surrender for transfer of any of the Common Stock certificates outstanding as of the date of the Rights Agreement (whether or not containing a notation contemplated by the original Rights Agreement dated May 5, 1989) will also constitute the transfer of the Rights associated with the Common Stock represented by such certificate and the number of Rights associated with each share of Common Stock shall be proportionately adjusted in the event of any dividend in Common Stock on the Common Stock or subdivision, combination or reclassification of the Common Stock (except as otherwise provided in the Rights Agreement). As soon as practicable following the Distribution Date, separate certificates evidencing the Rights ("Right Certificates") will be mailed to holders of record of the Common Stock as of the close of business on the Distribution Date and such separate certificates alone will evidence Rights.

The Rights are not exercisable until the Distribution Date. The Rights will expire on April 11, 2009, unless earlier redeemed by the Company as described below or unless further extended pursuant to an amendment in the Rights Agreement as described below.

The Purchase Price payable, and the number of shares of Common Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Common Stock, (ii) upon the grant to holders of Common Stock of certain rights or warrants to subscribe for shares of Common Stock or convertible securities at less than the current market price of the Common Stock or (iii) upon the distribution to holders of Common Stock of evidences of indebtedness or assets (excluding regular periodic cash dividends or dividends payable in Common Stock) or of subscription rights or warrants (other than those referred to above).

In the event that, at any time after the Rights become exercisable, the Company is acquired in a merger or other business combination, proper provision shall be made so that each holder of a Right shall thereafter have the right to receive, upon the exercise thereof at the then current exercise price of the Right, that number of shares of common stock of the surviving company (or its parent company or other controlling entity) which at the time of such transaction would have a market value of two times the exercise price of the Right. In the event that any person becomes an Acquiring Person, the Rights Agreement provides that proper provision would be made so that each holder of a Right, other than the Acquiring Person (whose Rights would thereafter be null and void) and certain of its transferees, would thereafter have the right to receive upon exercise that number of shares of the Common Stock having a market value of two times the exercise price of the Right.

With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments require an adjustment of at least 1% in such Purchase Price. No fractional shares will be issued and, in lieu thereof, an adjustment in cash will be made based on the market price of the Common Stock on the last trading date prior to the date of exercise.

At any time prior to the close of business on the date that Rights holders become entitled to purchase Common Stock of the Company (or of the surviving entity after a merger with the Company) with a market value of twice the Purchase Price (as described above), the Board of Directors of the Company may redeem the Rights in whole, but not in part, at a price of \$.01 per Right (payable in cash, shares of Common Stock or other consideration), appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (the "Redemption Price"). In the event, however, that any person or group (a "Proposed Acquiror") has proposed or publicly announced an intention to propose a transaction that, if consummated, would cause an Acquiring Person to become such or cause the Company to be acquired in a merger or other business combination, the Board of Directors may only redeem the Rights after receiving a recommendation from a majority of its Independent Directors. Immediately upon the action of the Board of Directors of the Company electing to redeem the Rights (unless otherwise specified in such Board action), the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

Upon the first public announcement (including, without limitation, the filing of a report pursuant to the Securities Exchange Act of 1934) by the Company or an Acquiring Person containing information indicating that an Acquiring Person has become such and prior to the acquisition by an Acquiring Person of 50% or more of the Common Stock then outstanding, the Board of Directors may, at its option and after receiving the prior recommendation of its Independent Directors, exchange all or part of the then outstanding and existing Rights (other than Rights owned by such Acquiring Person which shall become void) for Common Stock at an Exchange Ratio of one share of Common Stock per Right (subject to adjustment) (the "Exchange Ratio"). Immediately upon the action of the Board of Directors of the Company electing to exchange the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive that number of shares of Common Stock or Common Stock equivalents equal to the number of Rights held by such holder multiplied by the Exchange Ratio.

Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, no right to vote or to receive dividends.

At any time prior to the time that an Acquiring Person or a Potential Acquiror has become such, the Company may amend the Rights Agreement and the terms of the Rights in any manner deemed necessary or desirable. Thereafter, the Rights Agreement and the terms of the Rights may be amended by the Company under certain circumstances, but not in any manner that adversely affects the interests of the holders of the Rights (other than an Acquiring Person or a Proposed Acquiror).

A copy of the Rights Agreement is being filed with the Securities and Exchange Commission as an Exhibit to a Registration Statement on Form 8-A. A copy of the Rights Agreement will be available free of charge from the Company. This summary description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, which is incorporated herein by reference.

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ASSET SALE AND PURCHASE AGREEMENT

By and Among

SOUTHWESTERN ENERGY COMPANY,

ARKANSAS WESTERN GAS COMPANY

and

ATMOS ENERGY CORPORATION

Dated as of October 15, 1999

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ASSET SALE AND PURCHASE AGREEMENT

ASSET SALE AND PURCHASE AGREEMENT (the "Agreement") dated as of October 15, 1999, by and among SOUTHWESTERN ENERGY COMPANY, a corporation organized under the laws of the state of Arkansas ("Parent"), ARKANSAS WESTERN GAS COMPANY, a corporation organized under the laws of the state of Arkansas ("AWG" and, together with Parent, the "Sellers"), and ATMOS ENERGY CORPORATION, a corporation organized under the laws of Texas and Virginia ("Buyer").

BACKGROUND

Sellers desire to sell and assign to Buyer, and Buyer desires to purchase and assume from Sellers, the Transferred Assets (as defined hereinafter) and the Assumed Liabilities (as defined hereinafter), all on the terms and subject to the conditions of this Agreement.

TERMS

NOW, THEREFORE, intending to be legally bound hereby, the parties agree as follows:

I. DEFINITIONS.

For purposes of this Agreement, the following terms shall have the following meanings:

"Affiliate" means, when used with respect to a specified Person, another Person that, either directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with the Person specified.

"Abstracts" has the meaning specified in Section 8.8.

"Agreement" has the meaning specified in the first paragraph.

"Assumed Contracts" has the meaning specified in Section 2.1.6.

"Assumed Liabilities" has the meaning specified in Section 2.4.

"Assumption Agreement" has the meaning specified in Section 2.5.3.

"AWG" has the meaning specified in the first paragraph.

"Business" means the gas distribution and transmission business and the unregulated operations conducted by AWG's Associated Natural Gas Company Division in the State of Missouri immediately prior to the date hereof; provided that the Business shall not be deemed to include any operations of the Sellers conducted in the State of Arkansas.

"Buyer" has the meaning specified in the first paragraph.

"Buyer Medical Plan" has the meaning specified in Section 7.7.1.

"Buyer's Pension Plan" has the meaning specified in Section 7.3.1.

"Buyer's Post-Retirement Trusts" has the meaning specified in Section 7.7.3.

"Buyer's Savings Plan" has the meaning specified in Section 7.4.

"Closing" and "Closing Date" have the meanings specified in Section 2.5.1.

"Closing Purchase Price" has the meaning specified in Section 2.3.1.

"Closing Statement" has the meaning specified in Section 2.3.3.

"Code" has the meaning specified in Section 7.3.1.

"Current Assets" means the current assets of the Sellers reported as

(i) accounts receivable, (ii) inventory, (iii) stores expense undistributed, (iv) deferred gas purchases and (v) (to the extent not exceeding \$100,000) other current assets that are included in the Transferred Assets, all as determined in accordance with the Financial Principles applied consistently with the Financial Statements.

"Current Liabilities" means the current liabilities of the Sellers reported as (i) accounts payable, (ii) other taxes payable, (iii) deferred gas purchases, (iv) customer deposits, (v) accrued vacation payable and (vi) (to the extent not exceeding \$50,000) other current liabilities that are Assumed Liabilities, all as determined in accordance with the Financial Principles applied consistently with the Financial Statements.

"Current Period" has the meaning specified in Section 2.3.4.

"Eligible Transferred Employee" has the meaning specified in Section 7.4.

"Encumbrances" has the meaning specified in Section 2.1.

"Environmental Laws" means any federal, state, local or foreign statute, law, ordinance, regulation, rule, code, order, common law, and any enforceable judicial or administrative interpretation thereof, including any judicial or administrative order, writ, consent decree or judgment, relating to

(a) emissions, discharges, releases or threatened releases of Hazardous Materials into the natural environment, including into ambient air, soil, sediments, land surface or subsurface, buildings or facilities, surface water, groundwater, publicly-owned treatment works, septic systems or land; (b) the generation, treatment, storage disposal, use, handling, manufacturing, transportation or shipment of Hazardous Materials; (c) occupational health and safety; or (d) otherwise relating to the pollution or protection of the environment, health, safety or natural resources; provided that "Environmental Laws" shall not mean or refer to any of the foregoing except to the extent in existence and in full force and effect on and as of the Closing Date and, accordingly, shall not include any of the foregoing as it may be enacted, promulgated, amended, changed or altered (by statute, judicial interpretation, official interpretation or otherwise) at any time with effect after the Closing Date.

"Environmental Permit" means any permit, approval, identification number, license or other authorization required under or issued pursuant to any Environmental Law.

"ERISA" has the meaning specified in Section 3.13.2.

"Excluded Assets" has the meaning specified in Section 2.2.

"Excluded Liabilities" has the meaning specified in Section 2.4.

"Financial Principles" has the meaning specified in Section 2.3.3.

"Financial Statements" has the meaning specified in Section 3.12.

"FSA's" has the meaning specified in Section 7.11.

"Hazardous Material" means (a) any petroleum, petroleum hydrocarbons, gas, gas liquids, or any other petroleum products, by-products or breakdown products, radioactive materials, asbestos-containing materials in any form or condition or polychlorinated biphenyls in any form or condition or (b) any solid, chemical, material or substance regulated as toxic or hazardous or as a pollutant, contaminant or waste under any Environmental Law.

"Knowledge of Sellers" has the meaning specified in Section 13.12.

"Leased Property" has the meaning specified in Section 2.1.2.

"Leave" has the meaning specified in Section 7.1.

"Losses" has the meaning specified in Section 12.1.

"Material Adverse Effect" means any change in, or effect on, the Business or the Transferred Assets that is or is reasonably likely to be materially adverse to the Transferred Assets taken as a whole or the assets, liabilities, operations, results of operations or financial condition of the Business taken as a whole, except for any such changes or effects resulting from (i) changes in general economic, regulatory or political conditions or changes that affect the industry in general and (ii) this Agreement or the transactions contemplated hereby .

"Material Contracts" has the meaning specified in Section 3.5.

"Matters of Environmental Concern" has the meaning specified in Section 8.7(a).

"Measurement Period" has the meaning specified in Section 2.3.3.

"Names and Logos" has the meaning specified in Section 2.2(c).

"Net Working Capital" has the meaning specified in Section 2.3.3.

"Non-Assigned Contracts" has the meaning specified in Section 2.6.

"Omnibus Gas Transportation and Supply Agreement" has the meaning specified in Section 2.5.2.

"Owned Property" has the meaning specified in Section 2.1.1.

"Parent" has the meaning specified in the first paragraph.

"Pension Plans" has the meaning specified in Section 3.13.2.

"Permits" has the meaning specified in Section 3.7.

"Permitted Encumbrances" has the meaning specified in Section 3.4.

"Person" means any individual, partnership, firm, corporation, association, trust, limited liability company, unincorporated organization, governmental authority or other entity.

"Plans" has the meaning specified in Section 3.13.1.

"Post-Retirement Benefits" has the meaning specified in Section 7.7.3.

"Pre-Closing Returns" has the meaning specified in Section 8.5.

"Purchase Price" has the meaning specified in Section 2.3.1.

"Returns" has the meaning specified in Section 3.11.

"Seller Medical Plans" has the meaning specified in Section 7.7.1.

"Seller Pension Plan" has the meaning specified in Section 7.3.1.

"Seller Pension Plan Trust" has the meaning specified in Section 7.3.1.

"Seller Savings Plan" has the meaning specified in Section 7.4.

"Sellers" has the meaning specified in the first paragraph.

"Seller's Post-Retirement Trusts" has the meaning specified in Section 7.7.3.

"SFAS 106 Obligations" has the meaning specified in Section 3.13.5.

"System Property" has the meaning specified in Section 2.1.3.

"Taxes" means all federal, state, local and other taxes and similar levies, fees, charges and assessments imposed by a governmental authority, including without limitation, income, gross receipts, sales, use, transfer, business and occupation, franchise, profits, license, lease, service, service use, duties, excise, severance, stamp, occupation, ad valorem, real and personal property, withholding, payroll, and value added taxes.

"Threshold" has the meaning specified in Section 8.7.

"Transfer Taxes" has the meaning specified in Section 13.8.

"Transferred Assets" has the meaning specified in Section 2.1.

"Transferred Employee" and "Transferred Employees" have the meanings specified in Section 7.1.

"Transferred Pension Plan Participants" has the meaning specified in Section 7.3.1.

"Transition Services Agreement" has the meaning specified in Section 2.5.2.

"WARN Act" has the meaning specified in Section 7.12.

"Welfare Plans" has the meaning specified in Section 3.13.3.

II. SALE AND PURCHASE.

2.1. Sale and Purchase of Assets. Subject to the terms and conditions of this Agreement, at the Closing, each Seller shall sell, transfer and assign to Buyer, free and clear of any lien, pledge, option, security interest, claim, charge or other encumbrance ("Encumbrances"), except Permitted Encumbrances, and Buyer shall purchase and assume from each Seller, the Transferred Assets. For purposes of this Agreement, "Transferred Assets" shall mean the following assets:

2.1.1. The real property owned in fee by Sellers and listed on Schedule 2.1.1 (the "Owned Property"), together with all improvements, fixtures, rights, and other appurtenances thereto of Sellers;

2.1.2. The leasehold interests of Sellers in all possessory leases of real property listed on Schedule 2.1.2 (the "Leased Property");

2.1.3. All rights of way, easements, appurtenances and similar realty interests of Sellers relating to the Owned Property or the Leased Property or necessary for or relating primarily to the Business (the "System Property");

2.1.4. Machinery, equipment, tools and fixed assets owned by Sellers listed on Schedule 2.1.4, subject to such additions, substitutions or deletions thereto as shall have occurred in the ordinary course of the conduct of the Business prior to the Closing Date that is consistent with past practice;

2.1.5. All vehicles and other tangible assets of Sellers which are used primarily in or related primarily to the Business;

2.1.6. All rights of Sellers under the contracts listed on Schedule 2.1.6, subject to such additions, substitution or deletions thereto as shall have occurred in the ordinary course of Sellers' conduct of the Business prior to the Closing Date that is consistent with past practice (the "Assumed Contracts");

2.1.7. To the extent assignable to Buyer, all of the governmental permits, franchises, licenses, consents or other authorizations issued or given to Sellers which relate primarily to the Business or any of the Transferred Assets and which are required in connection with the conduct, use, operation or ownership thereof;

2.1.8. Copies of all customer, supplier and personnel records and other records as are in either Seller's possession or control which are used primarily in or related primarily to the Business;

2.1.9. Accounts and notes receivable of Sellers which arose from the operations of the Business (other than accounts and notes receivable relating to inter-company accounts between the Sellers, which accounts and notes receivable shall not be included on the Closing Statement);

2.1.10. All inventories of gas, materials and spare parts of Sellers used primarily in or relating primarily to the Business;

2.1.11. All prepaid expenses of Sellers relating primarily to the Business, except for prepaid expenses attributable to any Excluded Asset or Excluded Liability;

2.1.12. To the extent the rights and benefits thereunder are assignable to Buyer, all rights and benefits under any manufacturer's, subcontractor's, supplier's, repairman's or other third-party warranties, guarantees, and service and replacement programs, and all rights of indemnification, insurance proceeds, claims against insurers and similar rights of Sellers relating to the Transferred Assets or the Business, except to the extent any such rights or benefits relate to Excluded Assets or losses or conditions which Sellers have fully remedied prior to the Closing;

2.1.13. All patents, patent rights, trademarks, trade names and logos used in the Business listed on Schedule 2.1.13, other than the name "Associated Natural Gas" or "ANG" or variants thereof and the associated logos; and

2.1.14. All of either Seller's other assets, properties, franchises, interests, and rights and privileges of every kind and description, real, personal or mixed, tangible or intangible, necessary for, or primarily used by the Sellers in, the operation of the Business.

2.2. Excluded Assets. Anything herein to the contrary notwithstanding, the Transferred Assets shall not include the following (the "Excluded Assets"):

(a) all cash on hand, cash equivalents, investments, and bank accounts of Sellers as of the Closing Date;

(b) all negotiable instruments (other than notes receivable of the type included in the Transferred Assets pursuant to Section 2.1.9) and chattel paper of Sellers as of the Closing Date;

(c) all rights to the name "Associated Natural Gas" (or any derivative thereof) or the logos identified on Schedule 2.2(c) (the "Names and Logos"), subject to the provisions of Section 8.6;

(d) refunds or claims for refunds due from federal, state, local and foreign taxing authorities with respect to taxes paid or to be paid by Sellers;

(e) all insurance policies of Sellers, except to the extent provided in Section 2.1.12, and any related unearned premiums;

(f) Sellers' rights under this Agreement;

(g) each Seller's corporate charter, minute and stock record books and corporate seal;

(h) each Seller's ledgers, journals and tax returns;

(i) any assets relating to any benefits provided or plans maintained by Sellers for any employees, subject to the provisions of Article VII;

(j) any assets of Sellers primarily used in Sellers' gas distribution and transmission business conducted in the State of Arkansas; and

(k) the assets identified on Schedule 2.2(k).

2.3. Purchase Price; Adjustment.

2.3.1. Determination and Payment. In addition to the assumption of the Assumed Liabilities contemplated by Section 2.4, the consideration to be paid by Buyer for the Transferred Assets will be \$32,000,000 (the "Closing Purchase Price"), payable at Closing by wire transfer of immediately available funds to an account designated by Sellers. The Closing Purchase Price shall be subject to adjustment after Closing pursuant to Section 2.3.3 (as so adjusted, the "Purchase Price").

2.3.2. Allocation. Within ninety (90) days after the Closing Date, the Purchase Price and the value of the Assumed Liabilities will be allocated among the Transferred Assets by Buyer and Sellers in a mutually acceptable manner which is consistent with Section 1060 of the Code and the regulations thereunder. The parties agree that they will report the federal, state and local and other tax consequences of the purchase and sale hereunder (including, without limitation, in filings on Internal Revenue Service Form 8594) in a manner consistent with such allocation and that they will not take any position inconsistent therewith in connection with any tax return, refund claim, litigation or otherwise. The provisions of this Section 2.3.2 shall apply to any subsequent adjustments to the Purchase Price, including, without limitation, adjustment pursuant to Sections 2.3.3 and 13.8 of this Agreement.

2.3.3. Post-Closing Adjustments. Within 90 days after the Closing Date, Sellers shall deliver to Buyer a statement (the "Closing Statement") of (i) the net amount of the Current Assets minus the Current Liabilities ("Net Working Capital") as at the Closing Date and (ii) capital expenditures with respect to the Business and depreciation with respect to the Business during the period from the date hereof to and including the Closing Date ("Measurement Period"), in each case in accordance with the accounting principles and assumptions set forth in, and in the form provided in, the document entitled Financial Principles which is included as Schedule 2.3.3 hereto (the "Financial Principles").

If Net Working Capital is more than \$1,600,000, the Closing Purchase Price shall be increased by the amount by which Net Working Capital exceeds \$1,600,000. If Net Working Capital is less than \$1,600,000, the Closing Purchase Price shall be decreased by the amount by which Net Working Capital is less than \$1,600,000. If capital expenditures with respect to the Business during the Measurement Period exceed depreciation with respect to the Business during the Measurement Period, the Closing Purchase Price shall be increased by the amount by which such capital expenditures exceed such depreciation, but this amount shall not exceed \$1,000,000. If depreciation with respect to the Business during the Measurement Period exceeds capital expenditures with respect to the Business during the Measurement Period, the Closing Purchase Price shall be decreased by the amount by which such depreciation exceeds such capital expenditures. If the Purchase Price, as adjusted as provided above, exceeds the Closing Purchase Price, Buyer shall pay the amount of such excess to Sellers. If the Purchase Price, as adjusted as provided above, is less than the Closing Purchase Price, then Sellers shall pay the amount of such deficit to Buyer. Any such payment shall be made by wire transfer of immediately available funds within 15 days after Buyer's written notification to Sellers of Buyer's acceptance of the Closing Statement or within 15 days after Buyer is deemed to have accepted the Closing Statement as provided in this Section 2.3.3. The amount of any payment required by this Section

2.3.3 shall bear interest from the Closing Date through the date of actual payment at the rate of 30-day LIBOR plus 50 basis points.

After delivery of the Closing Statement, Sellers shall permit Buyer and Buyer's independent accountants access, upon reasonable notice and during reasonable business hours, to review their work papers and all books and records of Sellers relevant to the items covered by the Closing Statement, and Sellers shall permit such accountants to perform such tests as they may reasonably require to confirm the accuracy of such items.

In the event Buyer disputes any matter or matters on the Closing Statement, Buyer may within forty-five (45) days after the delivery of the Closing Statement notify Sellers of such dispute in a writing setting forth in reasonable detail the nature of such dispute and the facts upon which it is based, together with the application or treatment proposed by Buyer and the reasons supporting the use of such application or treatment rather than that used by Sellers. If both the Closing Statement as delivered by Sellers to Buyer and the Closing Statement as proposed by Buyer would require a payment by the same party pursuant to the second paragraph of this Section 2.3.3, then such party shall make a payment of the lesser amount reflected on the respective Closing Statements within 15 days of delivery of Buyer's proposed Closing Statement to Sellers, together with interest thereon as provided by such paragraph. If no such notice is given by Buyer within the time specified, the Closing Statement shall be deemed accepted by Buyer.

If the parties have not resolved all matters in dispute relating to the Closing Statement within forty-five (45) days after Sellers' receipt of such notice from Buyer, then any party may notify the others in writing that it elects to submit all remaining issues to resolution by a neutral accounting firm of national reputation. Within ten (10) days after receipt of such notice of election by a party, the parties shall agree upon the selection of a neutral accounting firm or, if they are unable to agree, Sellers and Buyer shall each submit the names of two neutral firms and a firm shall be selected at random from among them. A firm shall be considered neutral if it has not within the past three years performed and does not currently perform or contemplate performing any accounting, consulting or other services for any of the parties and their respective Affiliates having an aggregate value in excess of \$250,000.

As soon as reasonably practicable, the firm selected shall resolve all matters remaining in dispute solely on the basis of the Financial Principles and the provisions of this Section 2.3.3. Such firm shall not be required to follow any particular rules of procedure, it being the intention of the parties to create a feasible, practical and expeditious method for resolving any disagreement hereunder. The decision of such firm hereunder shall be final and binding and shall not be subject to review or challenge of any kind. The appropriate party shall pay to the other any disputed amount that is determined to be due within 15 days after such determination, together with interest thereon as provided in the second paragraph of this Section 2.3.3. The fees and expenses of such firm shall be borne equally by Buyer, on the one hand, and Sellers, on the other.

If the parties resolve all matters in dispute relating to the Closing Statement, then the Closing Statement shall be adjusted as required by the agreement resolving the matters in dispute and the Closing Statement as modified shall be deemed accepted by Buyer.

2.3.4. Proration of Certain Expenses. To the extent not reflected on the Closing Statement, real property, personal property and other ad valorem Taxes, rents, utility charges and similar expenses of Sellers related to the Transferred Assets shall be allocated between Buyer, on the one hand, and Sellers, on the other, on the basis of a daily proration and the net amount owing from Buyer to Sellers or from Sellers to Buyer on account of such proration shall be paid at such time as the post-closing adjustment is paid pursuant to Section 2.3.3. If an assessment for the period that includes the Closing Date (the "Current Period") has not been made by the time that payment is due under the preceding sentence, a tentative payment shall be made at that time based on the assessment for the immediately preceding tax period, and Buyer or Sellers, as the case may be, shall make an appropriate adjusting payment within 10 days following receipt of the assessment for the Current Period.

2.4. Assumption of Liabilities. In addition to the payment of the Purchase Price in accordance with Section 2.3.1, Buyer shall assume and pay, perform and discharge in accordance with the terms thereof the following liabilities and obligations (the "Assumed Liabilities"):

2.4.1. The obligations of Sellers not required to be performed prior to or as of the Closing Date under the Assumed Contracts;

2.4.2. The Current Liabilities included in the determination of Net Working Capital;

2.4.3. The obligations of Sellers not required to be performed prior to or as of the Closing Date under the governmental permits, franchises, consents or other authorizations included in the Transferred Assets pursuant to Section 2.1.7;

2.4.4. The obligations of Sellers not required to be performed prior to or as of the Closing Date under the agreements and arrangements giving rise to the rights and benefits included in the Transferred Assets pursuant to Section 2.1.12; and

2.4.5. The obligations of Sellers to customers providing advances for construction to refund portions of such advances to the extent additional amounts are received by Buyer after the Closing Date from other customers with respect to reimbursement of such advances.

Notwithstanding the foregoing, the Assumed Liabilities shall not include any of the following (collectively, the "Excluded Liabilities"): (a) any liabilities that AWG's Associated Natural Gas Company Division owes to either of the Sellers or any of its other Affiliates (other than those arising under an Assumed Contract for the payment of natural gas or transportation services to the extent not disallowed by any regulatory agency); (b) any liabilities or obligations that relate primarily to the Excluded Assets; (c) any liabilities or obligations of Sellers with respect to any legal, administrative or other action, proceeding or governmental investigation pending or threatened on or prior to the Closing Date; (d) any Taxes attributable to Tax periods that close on or before the Closing Date, or to the extent a Tax period closes after the Closing Date but includes the period on or before the Closing Date, any Taxes attributable to the portion of such Tax period that is on or before the Closing Date; (e) any liability relating to employee benefits or employment except as provided in Article VII; (f) any liability or obligation identified on Schedule

2.4; and (g) any other contingent liability or obligation, whether known or unknown, of either Seller to the extent arising out of or relating to the operation or conduct of the Business on or prior to the Closing Date or the ownership of the Transferred Assets on or prior to the Closing Date which is not a liability or obligation specifically referred to in Section 2.4.1, 2.4.2,

2.4.3, 2.4.4 or 2.4.5. For the avoidance of doubt, the provisions of this paragraph are not intended to qualify the obligations of Buyer to the extent provided in Section 2.3.4, Article VII, Section 8.7 or Section 13.8. The Sellers shall retain and pay, perform or discharge when due, all of the Excluded Liabilities.

2.5. Closing.

2.5.1. Time and Place. The closing of the transactions contemplated hereby (the "Closing") shall take place at the offices of Parent, 1083 Sain Street, Fayetteville, Arkansas 72703, at 11:00 a.m., Central Time (or at such other place and time as Buyer and Sellers shall agree), on the last day of the month in which all of the conditions specified in Articles IX and X hereof have been satisfied or waived (the "Closing Date").

2.5.2. Sellers' Deliveries at Closing. At the Closing, Sellers shall deliver to Buyer:

(a) Such bills of sale and instruments of conveyance, transfer and assignment, dated the Closing Date, as Buyer shall reasonably request to vest in Buyer the Transferred Assets;

(b) An agreement (the "Transition Services Agreement") requiring Sellers to furnish to Buyer post-Closing information technology, human resources, billing, call center and other transition services to be mutually agreed upon by Sellers and Buyer for a

period not to exceed ninety (90) days following the Closing Date for consideration and upon such other terms to be mutually agreed upon by Sellers and Buyer;

(c) An agreement (the "Omnibus Gas Transportation and Supply Agreement") relating to certain arrangements regarding gas transportation contracts and related matters, including those matters identified on Schedule 2.5.2(c), on terms to be mutually agreed upon by Sellers and Buyer; and

(d) The closing certificates and documents required by this Agreement and such other documents and instruments as may be reasonably requested by Buyer.

2.5.3. Buyer's Deliveries at Closing. At the Closing, Buyer shall deliver to Sellers:

(a) By wire transfer, the Closing Purchase Price in the manner specified in Section 2.3.1 hereof;

(b) An instrument of assumption of liabilities, dated the Closing Date, in a form reasonably acceptable to Sellers (the "Assumption Agreement");

(c) An executed counterpart of each of the Transition Services Agreement and the Omnibus Gas Transportation and Supply Agreement; and

(d) The closing certificates and documents required by this Agreement and such other documents and instruments as may be reasonably requested by Sellers.

2.6. Nonassignable Contracts. In the case of any contract or other agreement (other than agreements described in Section 2.1.7) that would be included in the Transferred Assets but which by its terms or by virtue of its subject matter is not assignable to Buyer as of the Closing Date (collectively, the "Non-Assigned Contracts"), such Non-Assigned Contracts shall not be transferred or assigned to Buyer, and Sellers agree to use commercially reasonable efforts to obtain, as soon as is reasonably practicable following the Closing Date, any consents necessary to convey to Buyer the benefit thereof, it being understood that such efforts shall not include any requirement to offer or grant any material financial accommodations to any third party or to remain secondarily liable with respect to any such Non-Assigned Contract. Sellers agree to use commercially reasonable efforts to provide Buyer with the same economic and other benefits of each Non-Assigned Contract as if such contracts had been assigned on the Closing Date. Nothing in this Agreement shall be construed as an attempt or an agreement to assign or cause the assignment of any Non-Assigned Contract which is not assignable without the consent of the other party or parties thereto, unless such consent shall have been given, or as to which all the remedies for the enforcement thereof enjoyed by Sellers would not, as a matter of law, pass to Buyer as an incident of the assignments provided by this Agreement. The provision of benefits under this Section 2.6 shall not constitute satisfaction of the conditions in Articles IX and X.

III. REPRESENTATIONS AND WARRANTIES OF SELLERS.

Sellers, jointly and severally, hereby represent and warrant to Buyer as follows:

3.1. Corporate Existence. Each Seller (a) is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Arkansas, (b) has the requisite power and authority to

enter into and perform its obligations under this Agreement, and (c) is duly qualified to do business as a foreign corporation, and is in good standing in each jurisdiction where the Business makes such qualification necessary, except where the failure to be so qualified or in good standing would not reasonably be expected to have a Material Adverse Effect.

3.2. Authorization and Validity of Agreement. The execution, delivery and performance by each Seller of this Agreement have been duly authorized by all necessary corporate action. This Agreement has been duly and validly executed and delivered by each Seller and constitutes a valid and binding obligation enforceable against each Seller in accordance with its terms, except to the extent that such enforceability (i) may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to creditors' rights generally, or (ii) is subject to general principles of equity.

3.3. No Contravention. The execution, delivery and performance by each Seller of this Agreement and the consummation by each Seller of the transactions contemplated on its part hereby will not, subject to obtaining the consents, approvals, authorizations, exemptions or waivers identified on Schedule 3.3, 3.7 or 3.10, (i) violate any provision of law, rule or regulation to which either Seller is subject, (ii) violate any order, judgment or decree applicable to either Seller or (iii) conflict with, or result in a breach or default under, any term or condition of any of the charter or bylaws of either Seller or any material term or condition of any contract, agreement or instrument (including the Assumed Contracts) to which it is a party or by which it or any of the Transferred Assets may be bound.

3.4. Title to Assets; Adequacy; Condition. Each Seller has good title to the Transferred Assets to be sold by it hereunder, subject to no Encumbrance, except Permitted Encumbrances. For purposes of this Agreement, "Permitted Encumbrances" shall mean (i) liens for Taxes and assessments not yet due or being contested in good faith by appropriate proceedings, (ii) such minor imperfections of title and encumbrances that do not secure monetary obligations which individually or in the aggregate are not substantial and do not materially detract from the value or impair the use of the Transferred Assets and (iii) such encumbrances as set forth in Schedule 3.4. The Transferred Assets include all assets and properties that are necessary for the supply and servicing of the customers of the Business in accordance in all material respects with the historical supply and service standards of the Sellers, except for the functions subject to the Transition Services Agreement and the Omnibus Gas Transportation and Supply Agreement. The tangible assets included in the Transferred Assets are in good operating condition, reasonable wear and tear excepted, and are adequate for the uses to which they are being put in the conduct of the Business.

3.5. Material Contracts. Schedule 3.5 contains a list of each Assumed Contract in existence as of September 30, 1999, (i) which is a gas supply, transportation or storage agreement relating to the Business involving a minimal annual payment of more than \$50,000, (ii) which involves a minimum annual payment to or by a Seller relating to the Business of more than \$50,000, (iii) the loss of which would have a Material Adverse Effect, (iv) pursuant to which either Seller is subject to take-or-pay obligations with respect to gas purchases or gas marketing in connection with the Business which impose minimum obligations of more than \$50,000 over the remaining term thereof or (v) which is otherwise material to the Business or the Transferred Assets (collectively, the "Material Contracts"). Except as set forth in Schedule 3.5, each of the Material Contracts is in full force and effect and is valid and enforceable in accordance with its terms, subject as to enforceability to the effects of any bankruptcy or similar laws. Except as set forth in Schedule 3.5, each Seller is in material compliance with all applicable terms of each Material Contract, and to the Knowledge of each Seller, each other party thereto

is in material compliance with all applicable terms of each Material Contract. Neither Seller has given to or received from any other party to any Material Contract any notice or other written communication regarding any actual or alleged material breach of or default under any Material Contract that has not been withdrawn, settled, or otherwise resolved.

3.6. Real Property. To the Knowledge of each Seller, no condemnation, expropriation, eminent domain or similar proceeding is pending or contemplated with respect to the Owned Property, the Leased Property or the System Property. Except as set forth in Schedule 3.6, each Seller is in compliance, in all material respects, with all covenants, restrictions, rights of way, easements and similar realty interests benefiting or encumbering the Real Property, the Leased Property and the System Property. The Real Property, the Leased Property and the System Property, and all improvements thereon, do not violate in any material respect any applicable zoning, construction code or other governmental restriction.

3.7. Permits. Except with regard to Environmental Permits, as to which the Sellers' sole representations and warranties are set forth in Section 3.15, each Seller holds all material permits, franchises and other authorizations necessary to conduct the Business as currently conducted by such Seller. The Sellers are in compliance, in all material respects, with all of such permits, franchises and other authorizations. A list of all material permits, franchises and other authorizations, other than Environmental Permits, relating to the Business is set forth in Schedule 3.7 (the "Permits").

3.8. Litigation. Except as set forth in Schedule 3.8, there is no legal, administrative or other action, proceeding or, to the Knowledge of each Seller, governmental investigation either pending or, to the Knowledge of each Seller, threatened (i) against either Seller with respect to the Business or the Transferred Assets, or (ii) which seeks to enjoin or obtain damages in respect of the consummation of the transactions contemplated hereby, which, in either case, if decided adversely, would reasonably be expected to have a Material Adverse Effect.

3.9. Compliance with Laws. Except as set forth in Schedule 3.9, each Seller is in compliance, in all material respects, with all laws, rules, regulations, ordinances, judgments, injunctions, orders and decrees applicable to the Transferred Assets or the Business, excluding, however, Environmental Laws, as to which the Sellers' sole representations and warranties are set forth in Section 3.15.

3.10. Governmental Consents. Except as set forth in Schedule 3.10, no consent, approval or authorization of, or exemption by, or declaration, registration or filing with, any governmental or regulatory authority is required in connection with the execution, delivery and performance by Sellers of this Agreement or the taking of any other action contemplated hereby, excluding, however, consents, approvals, authorizations, exceptions and filings, if any, where the failure to obtain or make the same would not impair in any material respect the consummation of the transactions contemplated by this Agreement and would not materially affect the use or operation of the Transferred Assets after the Closing Date.

3.11. Tax Matters.

(a) Tax Returns. All federal, state, local and other Tax returns, declarations, statements, reports or other documents required to be filed with respect to Taxes ("Returns") by Sellers on or before the Closing Date have been filed or will be filed on a timely basis with the appropriate governmental

agencies in all jurisdictions in which such Returns are required to be filed. All such Returns are true, complete and correct in all material respects and all Taxes shown on such Returns as being due, or otherwise due, in respect of material Taxes either (i) have been or will be fully paid or adequately provided for or (ii) are being contested in good faith by appropriate proceedings.

(b) Transferred Asset Status. None of the Transferred Assets (i) secures any debt the interest on which is tax-exempt under Section 103 of the Code, (ii) is "tax-exempt use property" within the meaning of Section 168(h) of the code, (iii) is "tax-exempt bond financing property" within the meaning of Section 168(g)(5) of the Code, (iv) is "limited use property" within the meaning of Revenue Procedure 76-30, or (v) is required to be treated as being owned by any other Person pursuant to the provisions of former section 168(f)(8) of the Code.

3.12. Financial Statements. Attached hereto as Schedule 3.12 are a balance sheet and a statement of income for the Business as of and for the nine months ended September 30, 1999 and a balance sheet and a statement of income for the Business for the year ended December 31, 1998 (the "Financial Statements"). The Financial Statements have been prepared in accordance with the Financial Principles and with the books and records of Sellers. To the extent relevant to the Financial Statements, in all material respects the books and records of Sellers are true, accurate and complete; have been maintained in accordance with good accounting practices; and, except as set forth in the Financial Principles, have been maintained on a consistent basis. The Financial Statements make adequate provision, in accordance with the Financial Principles, for any material contracts (or material group of similar contracts) reasonably expected to be performed at a loss. The Financial Statements fairly present, in all material respects, the financial position and the results of operations of the Business as of and for such dates and periods in accordance with the Financial Principles consistently applied. Since September 30, 1999, the Sellers have not made any capital expenditures outside the ordinary course of business or inconsistent with past practice with respect to the Business, entered into any material contracts (or material group of similar contracts) reasonably expected to be performed at a loss, or experienced any material damage, destruction or loss (whether or not covered by insurance) to the assets or properties used in the conduct of the Business.

3.13. Employee Matters.

3.13.1. Schedule 3.13.1 contains a list, which is true and complete in all material respects, of (a) each employment agreement with any Transferred Employee, written or oral, and (b) each bonus, deferred compensation, incentive compensation, stock purchase, stock option, severance pay, change in control, disability, medical, dental, life or other insurance, supplemental unemployment benefits, profit sharing, pension or retirement plan, program, agreement or arrangement (collectively, the "Plans") sponsored, maintained or contributed to or required to be contributed to by either Seller or with respect to which Seller has any liability for the benefit of any Transferred Employee (as hereinafter defined) or any former employee of the Business.

3.13.2. Each Seller maintains, sponsors or contributes to only those employee pension benefit plans (as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), whether or not excluded from coverage under specific Titles or Subtitles of ERISA) established or maintained for the benefit of employees or former employees of the Business that are described in Schedule 3.13.2 (the "Pension Plans"), none of which is a multi-employer plan (within the meaning of Section 3(37) of ERISA). Except as set forth on

Schedule 3.13.2, each Pension Plan that is intended to be tax qualified under Sections 401(a) and 501(a) of the Code is so qualified, has received one or more favorable IRS determination letters as to its qualification, covering such plan from its inception, and nothing has occurred that could jeopardize such tax qualified status.

3.13.3. Each Seller maintains, sponsors or contributes to only those employee welfare benefit plans (as defined in Section 3(1) of ERISA, whether or not excluded from coverage under specific Titles or Subtitles of ERISA) for the benefit of employees or former employees of the Business that are described in Schedule 3.13.1 (the "Welfare Plans"), none of which is a multi-employer plan (within the meaning of Section 3(37) of ERISA).

3.13.4. Except as set forth on Schedule 3.13.4, neither Seller is a party to any collective bargaining or labor agreement relating to the Business, and there is not, as of the date of this Agreement, any strike, work stoppage or material labor controversy or dispute pending or, to the best of the Knowledge of each Seller, threatened relating to the Business.

3.13.5 The post-retirement health and life obligations of Sellers for Transferred Employees and former employees of the Business ("SFAS 106 Obligations") for the year ended December 31, 1998 did not exceed by more than \$20,000 the amount included in rate recovery for the Business with respect to SFAS 106 Obligations pursuant to Sellers' most recent Missouri rate case (effective January 10, 1998). That portion of all rates reflecting the SFAS 106 Obligations paid to Sellers relating to the Business has been deposited in the trusts created to fund the SFAS 106 Obligations.

3.13.6 Prior to January 10, 1998, there were no post-retirement health or life obligations of Sellers for employees or former employees of the Business included in rate recovery, other than "pay-as-you-go" obligations.

3.14. Brokerage. No broker or finder has acted directly or indirectly for either Seller in connection with this Agreement or the transactions contemplated hereby, and no broker or finder is entitled to any brokerage or finder's fee or other commission in respect thereof based in any way on agreements, arrangements or understandings made by or on behalf of either Seller.

3.15. Environmental Matters. Except as disclosed in Schedule 3.15, each Seller holds all Environmental Permits that are required for the operation of the Business. Except as disclosed in Schedule 3.15, each Seller's conduct of the Business, and the condition of all properties and improvements included in the Transferred Assets (and, to the Knowledge of each Seller, any off-site storage or disposal of any Hazardous Materials from such operations), is in compliance, in all material respects, with all Environmental Laws. Except as disclosed on Schedule 3.15, neither Seller is currently in receipt of any written claim, demand, notice or complaint alleging material violation of, or material liability under, any Environmental Law relating to the operation of the Business or the Transferred Assets. Except as described on Schedule 3.15, to the Knowledge of each Seller, neither of Sellers has incurred any material liability or obligation in connection with any release or threatened release of any Hazardous Material in the environment or any material reclamation or remediation requirements under any Environmental Law, in each case relating to the operation of the Business or the Transferred Assets. No Seller has been named as a potential responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or any corresponding state laws. Except

as described on Schedule 3.15, to the Knowledge of each Seller, no Hazardous Materials were incorporated in the Real Property, the Leased Property or the System Property prior to the acquisition thereof by such Seller. There are no sites, locations or operations at which any Seller is currently undertaking, or has completed, any remedial or response action relating to the disposal or release of a Hazardous Material, as required by Environmental Laws, with respect to the Business. Buyer acknowledges that (i) the representations and warranties contained in this Section 3.15 are the only representations and warranties being made with respect to compliance with or liability under Environmental Laws or with respect to any environmental, health or safety matter, including natural resources, related in any way to this Agreement or its subject matter and (ii) no other representation contained in this Agreement shall apply to any such matters and no other representation or warranty, express or implied, is being made with respect thereto.

3.16. No Undisclosed Liabilities; No Material Adverse Effect. There are no material liabilities or obligations of the Business or of either Seller arising out of or relating to the Business or the Transferred Assets, except (i) Excluded Liabilities, (ii) liabilities and obligations reflected in the Financial Statements, (iii) liabilities and obligations arising since September 30, 1999 in the ordinary course of business that are not inconsistent with the types and amounts of such liabilities and obligations historically incurred in the Business, and (iv) liabilities and obligations identified on Schedule 3.16 or another Schedule hereto. Since September 30, 1999, there has not occurred any event resulting in a Material Adverse Effect.

3.17. Customers; Suppliers. Neither of Sellers has been involved in any material controversy with any group of similarly situated customers of the Business or with any material suppliers of the Business during the last two years.

3.18. Books and Records. All books and records of each Seller with respect to the Business or the Transferred Assets have been prepared, assembled and maintained in accordance in all material respects with the usual and customary policies and procedures and accurately reflect, in reasonable detail, the assets and transactions of each Seller relating to the Business or the Transferred Assets.

3.19. Insurance. Schedule 3.19 identifies each material insurance policy of Sellers relating to the Transferred Assets.

3.20. Accounts Receivable. Except as set forth on Schedule 3.20, the accounts and notes receivable included in the Transferred Assets: (a) arose from bona fide sales or contracting transactions by Sellers in the ordinary course of business consistent with past practices; and (b) represent bona fide indebtedness of the respective debtors.

3.21. Y2K Compliance. Sellers have put into effect reasonable and customary practices and programs designed to enable all material software, hardware and equipment that are owned or utilized by Sellers in the operation of the Business to be capable, by December 31, 1999, of accounting for all calculations using a century and date sensitive algorithm for the year 2000 without any material interruption caused by the occurrence of the year 2000.

3.22. No Other Representations. Except as set forth in this Article III or made pursuant to Section 9.1, Sellers make no representation or warranty whatsoever to Buyer.

IV. REPRESENTATIONS AND WARRANTIES OF BUYER.

Buyer hereby represents and warrants to Sellers as follows:

4.1. Organization. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas and the Commonwealth of Virginia and has all requisite corporate power and authority to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby.

4.2. Authorization and Validity of Agreement. The execution, delivery and performance by Buyer of this Agreement have been duly authorized by all necessary corporate action. This Agreement has been duly and validly executed and delivered by Buyer and constitutes a valid and binding obligation enforceable against Buyer in accordance with its terms, except to the extent that such enforceability (i) may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to creditors' rights generally, or (ii) is subject to general principles of equity.

4.3. No Contravention. The execution, delivery and performance by Buyer of this Agreement and the consummation of the transactions contemplated on its part hereby will not, subject to obtaining any required consents, approvals, authorizations, exemptions or waivers, (i) violate any provision of law, rule or regulation to which it is subject, (ii) violate any order, judgment or decree applicable to it, or (iii) conflict with, or result in a breach or default under, any term or condition of Buyer's articles of incorporation or bylaws, or any contract, agreement or other instrument to which it is a party or by which it may be bound.

4.4. Consents. Except as set forth on Schedule 4.4, no consent, approval or authorization of, or exemption by, or declaration, registration or filing with, any governmental or regulatory authority is required in connection with the execution, delivery and performance by Buyer of this Agreement, or the taking of any other action contemplated hereby.

4.5. Brokerage. No broker or finder has acted directly or indirectly for Buyer in connection with this Agreement or the transactions contemplated hereby, and no broker or finder is entitled to any brokerage or finder's fee or other commission in respect thereof based in any way on agreements, arrangements or understandings made by or on behalf of Buyer.

4.6. Litigation. There is no legal, administrative or other action, proceeding or, to Buyer's knowledge, governmental investigation pending or, to Buyer's knowledge, threatened (i) against Buyer with respect to which there is a reasonable likelihood of a determination which would have a material adverse effect on the ability of Buyer to perform its obligations under this Agreement or (ii) which seeks to enjoin or obtain damages in respect of the consummation of the transactions contemplated hereby.

4.7. Financing. Buyer has all funds necessary to consummate the transactions contemplated by this Agreement.

V. OBLIGATIONS OF SELLERS.

Sellers hereby covenant and agree with Buyer as follows:

5.1. Consents. Each Seller will use commercially reasonable efforts, and will cooperate with Buyer, to secure all necessary consents, approvals, authorizations, exemptions and waivers from third parties, including governmental authorities, as shall be required in order to enable Sellers to effect the transactions contemplated on their part hereby. It is understood that such efforts do not require Sellers to offer or grant financial accommodations to any third party or to remain secondarily liable with respect to any Assumed Liability.

5.2. Conduct of Business. Except as may be otherwise contemplated by this Agreement or required by any of the documents listed in any Schedule hereto or except as Buyer may otherwise consent in writing, between the date hereof and the Closing Date Sellers will: (i) in all material respects, conduct the Business only in the ordinary course consistent with past practice; (ii) use commercially reasonable efforts to preserve intact the Business and the goodwill of its customers, suppliers, employees and any other Persons having business relations with them with respect to the Business; (iii) maintain the properties, machinery and equipment included in the Transferred Assets in sufficient operating condition and repair to enable Buyer to conduct the Business as currently conducted by Sellers; and (iv) use commercially reasonable efforts to conduct the Business in such a manner so that the representations and warranties of the Sellers contained herein shall continue to be true and correct at all times prior to the Closing Date as if made on and as of such times. Without limiting the generality of the foregoing, except as Buyer may otherwise consent in writing, Sellers shall not (i) enter into any contract which would be a Material Contract, or amend or modify any existing Material Contract, not in the ordinary course of business consistent with past practice or (ii) except for budgeted compensation increases, adopt, amend or terminate any Plan, increase any salary, bonus or other compensation or benefit, or promise or commit to do any of the foregoing, except in a manner which individually or in the aggregate will not result in a material increase in benefits or compensation expense.

5.3. Access Before Closing. From the date of this Agreement until the Closing Date, Sellers will permit Buyer and its representatives reasonable access on reasonable notice during normal business hours to the properties, personal property, personnel, books and records, contracts, and commitments of the Business, including the right to make copies of such books and records, contracts, and commitments. In the event that any record or other information requested by Buyer is subject to a confidentiality agreement with a third party, attorney-client privilege, or other legal restriction or privilege, Sellers and Buyer will endeavor to find means of disclosing as much information as practicable that is needed by Buyer to prepare for the transfer of the Business, but Sellers will not be obligated to breach such restriction or privilege. Buyer shall return all copies of such books and records, contracts, and commitments promptly upon the request of Sellers if for any reason the Closing does not occur.

5.4. Clearance Certificate. On or prior to the Closing Date, Sellers shall use commercially reasonable efforts to provide Buyer, at Buyer's request, with all clearance certificates or similar documents that may be required by any state, local or other taxing authority in order to relieve Buyer of any obligation to withhold or escrow any portion of the Purchase Price.

VI. OBLIGATIONS OF BUYER.

Buyer hereby covenants and agrees with Sellers as follows:

6.1. Consents. Buyer will use commercially reasonable efforts, and will cooperate with Sellers, to secure all necessary consents, approvals, authorizations, exemptions and waivers from third

parties, including governmental authorities, as shall be required in order to enable Buyer to effect the transactions contemplated hereby. It is understood that such efforts do not require Buyer to offer or grant financial accommodations to any third party or to become liable with respect to any Excluded Liability.

VII. EMPLOYEE MATTERS.

7.1. Employment of Employees. As of the Closing Date, Buyer shall offer to employ each employee listed in Schedule 7.1 (which Schedule shall be updated as of the Closing Date with appropriate deletions and additions thereto to reflect the then current employees of the Business, but not including any employee then on long-term disability, short-term disability or not actively at work other than those employees on vacation, bereavement leave, short-term sick leave or other short-time due to non-medical reasons which are not scheduled to last more than ten (10) business days ("Leave"), unless and until such employee returns to full-time work from such long-term disability, short-term disability or Leave after the Closing Date) at a base salary or hourly rate not less than the base salary or hourly rate then applicable to such employee and to provide such benefits, holidays, vacation days, and similar benefits as are, in the aggregate, substantially comparable to those then in effect for such employees, except that Buyer shall not be required to provide a 401(k) savings plan. Each such employee as of the Closing Date (or for an employee on long-term or short-term disability or Leave as of the Closing Date, who returns from such disability or Leave after the Closing Date), who becomes employed by Buyer is herein referred to individually as a "Transferred Employee" and collectively as the "Transferred Employees".

7.2. Severance Benefits. For a period of one year after the Closing Date, Buyer shall provide to each Transferred Employee who is involuntarily terminated not for cause by Buyer the severance benefits set forth on Schedule 7.2 hereto.

7.3. Transfer of Pension Assets and Liabilities.

7.3.1. Transfer. Subject to the review of Sellers' plan documents, as soon as practicable following the Closing Date, but not earlier than thirty (30) days following the filing of appropriate Forms 5310A, if applicable, with the Internal Revenue Service, Parent shall cause to be transferred (i) from the Southwestern Energy Company Pension Plan (the "Seller Pension Plan") to the pension plan sponsored by or to be established by Buyer ("Buyer's Pension Plan"), and Buyer's Pension Plan shall assume, the accrued benefits liability as of the Closing Date for each of the Transferred Employees who participated in the Seller Pension Plan prior to the Closing Date (the "Transferred Pension Plan Participants"), and (ii) from the Southwestern Energy Company Pension Trust (the "Seller Pension Plan Trust") to Buyer's Pension Plan trust, an amount in cash equal to the projected benefit obligation to the Transferred Pension Plan Participants on the Closing Date under the Seller Pension Plan, increased by interest at the plan's actuarial rate from Closing to the actual date of transfer and decreased by the amount of any benefit payments to Transferred Pension Plan Participants after the Closing Date but before the date of transfer. Parent shall not be obligated to cause any amount to be transferred to any plan or trust designated by Buyer until Buyer provides evidence (such as a favorable determination letter from the Internal Revenue Service, an opinion of counsel or other reasonably satisfactory evidence) reasonably acceptable to Parent that (i) such plan and trust satisfy the requirements for qualification under Section 401(a) of the Internal Revenue Code (the "Code") and (ii) such plan provides that each Transferred Pension Plan Participant is entitled to a nonforfeitable accrued

benefit under such plan that is not less than the nonforfeitable accrued benefit to which such Transferred Pension Plan Participant was entitled under the Seller Pension Plan on the Closing Date.

7.3.2. Benefit Calculations. The projected benefit obligation to Transferred Pension Plan Participants shall be determined using the projected benefit obligation methodology of Statement of Financial Accounting Standards No. 87, on the basis of (i) each participant's age, service for benefit accrual purposes and average compensation and the terms of the Seller Pension Plan in effect on the Closing Date, and (ii) the actuarial assumptions and method used for determining the projected benefit obligation as set forth in Schedule 7.3.2. In no event shall each amount transferred pursuant to this Section 7.3 be less than the amount required to be transferred to meet the requirements of Sections 401(a)(12) and 414(1) of the Code. The calculation of projected benefit obligation required for purposes of this Section 7.3.2 shall be made in accordance with the assumptions set forth on Schedule 7.3.2.

7.3.3. Plan Termination. Subject to the requirements of applicable law, in the event of the termination of Buyer's Pension Plan within five (5) years after the Closing Date, all of the assets transferred to such plan pursuant to this Section 7.3, adjusted for earnings, gains or losses after the date of such transfer, shall be used to provide benefits to Transferred Pension Plan Participants and their beneficiaries who are entitled to benefits under such plan at the time of its termination.

7.4. Savings Plan. Subject to the review of Sellers' plan documents, as soon as practicable following the Closing Date, to the extent that Buyer sponsors a 401(k) savings plan (which it shall not be required to do), Parent shall cause to be transferred (i) from the Southwestern Energy Company 401(k) savings plan (the "Seller Savings Plan") to the 401(k) savings plan sponsored by Buyer ("Buyer's Savings Plan"), and the Buyer's Savings Plan shall assume, the account balance liability as of the date of transfer for each Transferred Employee who participated in the Seller Savings Plan prior to the Closing Date, who is employed by Buyer on the date of transfer (the "Eligible Transferred Employee"), and (ii) from the trust relating to the Seller Savings Plan, an amount in cash or other property, including participant loans, acceptable to the trustee of the Buyer's Savings Plan equal to the sum of the account values (as of the date of transfer) of each Eligible Transferred Employee. Parent shall not be obligated to cause any amount to be transferred to the Buyer's Savings Plan or the trust thereunder until Buyer provides evidence (such as a favorable determination letter from the Internal Revenue Service, an opinion of counsel or other reasonably satisfactory evidence) reasonably acceptable to Parent that such plan and trust satisfy the requirements for qualification under Section 401(a) of the Code. Each Eligible Transferred Employee shall be entitled on the date of transfer to a nonforfeitable account balance under the Buyer's Savings Plan that is not less than such Eligible Transferred Employee's nonforfeitable account balance under the Seller Savings Plan immediately prior to such transfer. Buyer agrees to permit any Eligible Transferred Employee who has an unpaid loan balance under the Seller Savings Plan to continue to repay such loan under the Buyer's Savings Plan under the same terms as such loan was required to be repaid under the Seller Savings Plan. However, nothing herein shall require Buyer to sponsor or establish a Savings Plan, in which case this Section 7.4 shall not apply. Buyer shall permit the Transferred Employees to participate in Buyer's Employee Stock Ownership Plan.

7.5. Indemnification for Plan Liabilities. From the dates of the transfers of assets referred to in Sections 7.3 and 7.4, Buyer shall indemnify and hold Sellers and Seller Savings Plan and Seller

Pension Plan harmless for any loss that Sellers or said plans may incur in respect of any obligation or liability transferred under Sections 7.3 and 7.4 to the applicable plan of Buyer designated under such Sections.

7.6. Service Credit. For purposes of vesting, benefit accrual, benefit calculation, participation, eligibility (including for optional forms of benefits or early retirement or disability retirement under Buyer's Pension Plan), and matching contribution benefits, if any, Buyer shall, with respect to each benefit required to be provided under the terms of this Article 7, credit each Transferred Employee with all service credited to the Transferred Employee under each Seller's corresponding plan, policy, program, or arrangement applicable to such Transferred Employee as of the Closing Date.

7.7. Medical and Dental Plans.

7.7.1. Effective as of the Closing Date, Buyer shall make enrollment available to all Transferred Employees and their eligible dependents without any waiting period in a Buyer plan or plans providing medical and dental benefits (the "Buyer Medical Plan"), to the extent such individuals were covered under Seller's Medical Plan, as contemplated by Section 7.1. Such Buyer Medical Plan shall waive any restrictions and limitations for pre-existing conditions for all Transferred Employees, to the extent such restrictions did not apply under Seller's Medical Plan, and shall give credit to each Transferred Employee for any deductibles and out-of-pocket expenses paid during the current plan year by such Transferred Employee under Sellers' applicable medical and dental Plans (hereinafter collectively referred to as the "Seller Medical Plans").

7.7.2. Buyer shall be responsible for medical and dental expenses covered under the terms of the Buyer Medical Plan incurred on the later of (i) the Closing Date or (ii) the date such person becomes a Transferred Employee, by a Transferred Employee and/or his covered dependents who are enrolled in the Buyer Medical Plan. Sellers shall be responsible only for medical and dental expenses covered under the terms of the Seller Medical Plans incurred prior to the Closing Date (or if later, for the period from the Closing Date until the date such person becomes a Transferred Employee) by a Transferred Employee and/or his covered dependents. If a Transferred Employee or a covered dependent of a Transferred Employee enrolled in the Seller Medical Plans is hospitalized on the Closing Date, the Seller Medical Plans shall continue to provide coverage for such person until he or she is discharged from the hospital, to the extent coverage is provided under the terms of the Seller Medical Plans.

7.7.3. As soon as possible following the Closing Date, but in no event later than 30 days following the later of the Closing Date or the establishment of Buyer's Post-Retirement Trusts (as defined below), Parent shall cause to be transferred to Buyer, either through the transfer from the trusts or other vehicles (the "Seller's Post-Retirement Trusts") funding the post-retirement medical and other welfare benefits (the "Post Retirement Benefits") for all Transferred Employees listed on Schedule 7.1 and not greater than thirty-five (35) former employees of the Business (to be listed on a Schedule to be provided by Sellers to Buyer within five days of the date hereof, and updated as of the Closing Date) to the trust or trusts established or maintained by Buyer (the "Buyer's Post-Retirement Trusts") for the funding of post-retirement medical and other welfare benefits or through a direct payment to Buyer, an amount equal to the difference between (a) the amount of the Post-Retirement Benefits which has been recovered by Seller in

rates on or after January 10, 1998, and (b) the amount of the Post-Retirement Benefits paid by Seller in the form of benefit payments between January 10, 1998 and the Closing Date. In the event the representations and warranties of Sellers in Section 3.13.6 do not continue to be true and correct, Sellers shall pay to Buyer the amount by which the rate recovery with respect to the Business for periods prior to January 10, 1998 exceeded the "pay-as-you-go" obligations of the Business for periods prior to January 10, 1998.

7.8. Vacation and Sick Day Benefits Accrued Through Closing Date. Buyer shall credit each Transferred Employee with any vacation and sick days accrued as of the Closing Date in accordance with the terms of Sellers' vacation and sick day policies in effect as of such date.

7.9. Welfare Benefits. Sellers shall be liable for claims incurred under the Welfare Plans prior to the Closing Date.

7.10. Long Term Disability. Buyer shall not assume sponsorship of, or any liabilities under, the Southwestern Energy Company Long Term Disability Plan. Any and all such liabilities shall remain solely with Sellers.

7.11. Flexible Spending Accounts. As soon as possible following the Closing Date, Sellers shall transfer to Buyer, and Buyer agrees to accept, those amounts which represent the Transferred Employees' debit and credit balances under the Southwestern Energy Company Salary Conservation Plan (the "FSA's"), a schedule of which is attached hereto as Schedule 7.11. Buyer agrees to administer the FSA's (consistent with the terms of the flex plan applicable to Buyer's employees) such that Transferred Employees will be able to defer additional compensation (in accordance with the terms of the applicable Buyer plan) and to submit claims against the FSA within the time period permitted by applicable law.

7.12. WARN Act Liability. Sellers shall pay and be solely liable for all liability under the Worker Adjustment and Retraining Notification Act ("WARN Act"), in each case, arising from any act or omission of Sellers on or before the Closing Date. Buyer shall pay and be solely liable for all liability under the WARN Act, in each case, arising from any act or omission of Buyer or its Affiliates after the Closing Date.

7.13. Health Care Continuation Coverage. Sellers shall be responsible for compliance with all requirements under Section 4980B of the Code and Section 601 et seq. of ERISA with respect to any (a) Transferred Employee or (b) family member of such Transferred Employee, in each case who becomes a qualified beneficiary within the meaning of Section 4980B(g)(1) of the Code as a result of any "qualifying event" within the meaning of Section 4980B(f)(3) of the Code which occurs on or prior to the Closing Date. Buyer shall be responsible for compliance with all requirements under Section 4980B of the Code and Section 601 et seq. of ERISA with respect to any (a) Transferred Employee or (b) family member of such Transferred Employee, in each case who becomes a qualified beneficiary within the meaning of Section 4980B(g)(1) of the Code as a result of any "qualifying event" within the meaning of Section 4980B(f)(3) of the Code which occurs after the Closing Date.

7.14. Employment Taxes. Sellers hereby acknowledge that, for FICA and FUTA tax purposes, Buyer qualifies as a successor employer with respect to the Transferred Employees. In connection with the foregoing, the parties agree to follow the "Alternative Procedures" set forth in Section 5 of Revenue Procedure 96-60, 1996-2-C.B.399. In connection with the application of the "Alternative Procedures,"

(i) Sellers and Buyer each shall report on a predecessor-successor basis as set forth in such Revenue Procedure, (ii) provided that Sellers provide to Buyer all necessary payroll records for the calendar year that includes the Closing Date, Sellers shall be relieved from furnishing Forms W-2 to employees of Sellers that become employees of Buyer, and (iii) provided that Sellers provide to Buyer all necessary payroll records for the calendar year that includes the Closing Date, Buyer shall assume the obligations of Sellers to furnish such Forms W-2 to such employees for the full calendar year in which the Closing occurs.

VIII. ADDITIONAL RIGHTS AND OBLIGATIONS.

8.1. Access After Closing. Buyer will permit Sellers and their representatives reasonable access on reasonable notice during normal business hours, for a period of three years following the Closing Date and for such longer period as may be required in connection with any pending or threatened tax audit or judicial or administrative proceeding, (i) to the books and records of Sellers included in the Transferred Assets, including the right to make copies thereof, and to personnel (for reasonable inquiry and testimony), and (ii) to any computerized data included in the Transferred Assets. All information so obtained shall be kept confidential by the Sellers, unless such information otherwise becomes publicly available or disclosure of such information is required by applicable law.

8.2. Further Assurances. At any time and from time to time after the Closing Date, Sellers shall, at the request of Buyer, and Buyer shall, at the request of Sellers, execute and deliver any further instruments or documents and take all such further action as the other party may reasonably request in order to consummate and make effective the sale of the Transferred Assets and the assumption of the Assumed Liabilities pursuant to this Agreement or to fulfill any other of such party's obligations hereunder.

8.3. Confidentiality. The terms of the Confidentiality Agreement dated June 15, 1999 between Parent and Buyer are hereby incorporated herein by reference and shall continue in full force and effect until the Closing, at which time such Confidentiality Agreement and the obligations of Buyer under this Section 8.3 shall terminate. If this Agreement is, for any reason, terminated prior to the Closing, the Confidentiality Agreement shall continue in full force and effect.

8.4. Schedules. Certain information set forth in the Schedules is included solely for informational purposes and may not be required to be disclosed pursuant to this Agreement. The disclosure of any information shall not be deemed to constitute an acknowledgment that such information is required to be disclosed in condition with the representations and warranties made by Sellers in this Agreement. .

8.5. Tax Matters. Sellers shall prepare or cause to be prepared and timely file or cause to be timely filed all required Tax Returns relating to Transfer Taxes imposed on Sellers for (i) all taxable periods ending on or before the Closing Date for which Returns shall not have been filed as of the Closing Date, and (ii) all taxable periods ending following the Closing Date that include the Closing Date (all such Returns referred to in clause (i) and (ii) being "Pre-Closing Returns"). All such Pre-Closing Returns shall be prepared on a basis consistent with prior practice unless a different treatment is required by a change in applicable law.

8.6. Use of Name and Logos.

8.6.1. Buyer agrees to cease using the Names and Logos on its literature, inventory, products, labels, packaging or materials as soon as available supplies thereof are exhausted and in any event within six months after the Closing Date with respect to inventory and products, and within 90 days after the Closing Date with respect to literature.

8.6.2. For thirty days after Closing, Buyer may use, as is, any of Sellers' receipts, bags, boxes, stationery, purchase order forms, bills or other similar paper goods on hand or order at Closing. After such time, Buyer shall not use any such supplies which state or otherwise indicate thereon that the business operated by Buyer is a subsidiary, division or unit of either Seller without first crossing out or marking over such statement or indication or otherwise clearly indicating on such supplies that the business operated by Buyer is no longer a subsidiary, division or unit of either Seller.

8.7. Environmental Matters.

(a) Sellers jointly and severally agree to indemnify and hold Buyer harmless against any and all Losses incurred by Buyer resulting from Matters of Environmental Concern (as hereinafter defined); provided that: (i) any claim by Buyer for indemnification pursuant to this clause 8.7(a) must be made by written notice given within three (3) years after the Closing Date; (ii) Sellers will have no obligation to indemnify Buyer for such Losses except to the extent that such Losses, taken together, exceed \$200,000 in the aggregate (the "Threshold"), and then only to the extent of the excess that has not and will not be recoverable through rates; and (iii) any clean-up, remediation, reclamation or other costs with respect to the Transferred Assets for which a claim is made by Buyer under this Section 8.7(a) shall be borne, after giving effect to the Threshold, 50% by Sellers and 50% by Buyer. "Matters of Environmental Concern" means (i) any failure by Sellers to have complied prior to the Closing Date with applicable Environmental Laws or (ii) any handling, use, storage, generation, release, discharge, disposal, dumping or migration of any Hazardous Materials (whether legal, illegal, accidental or intentional) on, to, from or beneath the Real Property, the Leased Real Property, the System Property or any other Transferred Asset to the extent occurring prior to the Closing Date.

(b) If Buyer or either Seller has or may have the right to recover Losses indemnified by Sellers or borne by Buyer pursuant to clause (a) of this Section 8.7 from a party in addition to Sellers, Buyer and each Seller, as the case may be, shall assign such right to the other (in proportion to the relative amounts indemnified against or borne) and shall reasonably cooperate in pursuing any rights against such third party.

8.8. Abstracts. Within 60 days after the date hereof, Sellers shall cause to be prepared by a title abstractor reasonably acceptable to Buyer and delivered to Buyer abstracts of title for the Real Property and the Leased Property (other than office and warehouse space) and the System Property (the "Abstracts") showing, in customary detail, the state of title to such Transferred Assets, including the legal description and any other identification of such Transferred Assets, the instruments creating or evidencing such Transferred Assets and the encumbrances affecting such Transferred Assets.

8.9. Y2K. To the extent, if any, that the information technology included in the Transferred Assets (including components of the Transferred Assets that interface with or whose operation is dependent upon the operation of information technology systems) will not operate without error relating to date data that references different centuries or more than one century, Sellers shall use commercially reasonable efforts, at Sellers' expense, to modify or replace such information technology so it will so operate without error. Any modification or replacement will be made as promptly as practicable after Buyer's request; provided that Buyer's request is made not later than six months after the Closing Date.

IX. CONDITIONS TO BUYER'S OBLIGATIONS.

The obligations of Buyer under this Agreement to purchase the Transferred Assets and to consummate the other transactions contemplated hereby shall be subject to the satisfaction (or waiver by Buyer) on or prior to the Closing Date of all of the following conditions:

9.1. Representations, Warranties and Covenants of Sellers. Sellers shall have complied in all material respects with their agreements and covenants contained herein to be performed on or prior to the Closing Date, and all the representations and warranties of Sellers contained herein shall be (a) true and correct on and as of the date hereof and (b) true and correct in all material respects on and as of the Closing Date with the same effect as though made on and as of the Closing Date, (i) except to the extent that such representations and warranties were made as of a specified date, and as to such representations and warranties the same shall continue on the Closing Date to have been true and correct in all material respects as of the specified date and (ii) in the case of clause (b) above, except for changes after the date hereof resulting from the conduct of the Business in the ordinary course of business that do not result from a violation of Section 5.2, if such changes could not adversely affect the Buyer, the Transferred Assets or the use or operations thereof in any material respect. Buyer shall have received a certificate of Sellers, dated as of the Closing Date and signed by an officer of each Seller, certifying as to the fulfillment of the condition set forth in this Section 9.1.

9.2. No Prohibition. No statute, rule or regulation or order of any court or administrative agency shall be in effect which prohibits Buyer from consummating the transactions contemplated hereby.

9.3. Further Action. All consents and approvals of governmental authorities referred to in Schedule 3.10 or 4.4 hereto, the granting of which are necessary to consummate the transactions contemplated hereby, shall have been obtained and shall not (a) result in rate adjustments with respect to the Business which would be materially less favorable in the aggregate to Buyer than the rates currently in effect on the date hereof, (b) prevent or adversely affect the operation of the Transferred Assets (or the results of operations therefrom) after the Closing Date in a manner consistent with the Business or (c) contain any other terms materially adverse to the Buyer. The consents and approvals of third parties (other than governmental authorities) identified on Schedule 9.3 shall have been obtained and shall be reasonably satisfactory to Buyer.

9.4. No Material Adverse Effect. Since the date of this Agreement, there shall not have occurred any event resulting in a Material Adverse Effect.

9.5. Abstracts. Buyer shall have received the Abstracts, and the Abstracts reflect a state of title that is reasonably satisfactory to Buyer.

9.6. Omnibus Gas Transportation and Supply Agreement. The parties shall have reached agreement on, and executed, the Omnibus Gas Transportation and Supply Agreement.

9.7. Other Documents. The Sellers shall have delivered to Buyer such certificates, documents and instruments, including certified resolutions, authorizations and confirmations of incumbency, as Buyer may reasonably request to effect or confirm the transactions contemplated hereby.

X. CONDITIONS TO SELLERS' OBLIGATIONS.

The obligations of Sellers under this Agreement to sell the Transferred Assets and to consummate the other transactions contemplated hereby shall be subject to the satisfaction (or waiver by Sellers) on or prior to the Closing Date of all of the following conditions:

10.1. Representations, Warranties and Covenants of Buyer. Buyer shall have complied in all material respects with all of its agreements and covenants contained herein to be performed on or prior to the Closing Date, and all of the representations and warranties of Buyer contained herein shall be (a) true and correct on and as of the date hereof and (b) true and correct in all material respects on and as of the Closing Date with the same effect as though made on and as of the Closing Date, except to the extent that such representations and warranties were made as of a specified date, and as to such representations and warranties the same shall continue on the Closing Date to have been true and correct in all material respects as of the specified date. Sellers shall have received a certificate of Buyer, dated as of the Closing Date and signed by an officer of Buyer, certifying as to the fulfillment of the condition set forth in this Section 10.1.

10.2. No Prohibition. No statute, rule, regulation or order of any court or administrative agency shall be in effect which prohibits Sellers from consummating the transactions contemplated hereby.

10.3. Further Action. All consents and approvals of governmental authorities, referred to in Schedule 3.10 or Schedule 4.4 hereto, the granting of which are necessary to consummate the transactions contemplated hereby, shall have been obtained.

10.4. Omnibus Gas Transportation and Supply Agreement. The parties shall have reached agreement on, and executed, the Omnibus Gas Transportation and Supply Agreement.

10.5. Other Documents. Buyer shall have delivered to Sellers such certificates, documents and instruments, including certified resolutions, authorizations and confirmations of incumbency, as Sellers may reasonably request to effect or confirm the transactions contemplated hereby.

XI. TERMINATION PRIOR TO CLOSING.

11.1. Termination. This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time prior to the Closing:

(i) By the mutual written consent of Buyer and Sellers; or

(ii) By either Buyer or Sellers, if the Closing shall have not occurred on or before December 31, 2000; provided, however, that the right to terminate this Agreement under this subclause (ii) shall not be available to any party whose failure to fulfill any obligation under this Agreement shall have been the cause of, or resulted in, the failure of the Closing to occur on or before such date.

11.2. Effect of Termination. In the event of termination of this Agreement as provided in Section 11.1, this Agreement shall forthwith become void; provided, however, that such termination shall not relieve any party of its obligations under Section 8.3, Section 13.9 and Section 13.15 nor relieve any party from liability for any breach hereof. Upon any termination of this Agreement, each party hereto will return all documents, work papers and other material of the other party relating to the transactions contemplated hereby and all copies of such materials, whether so obtained before or after the execution hereof, to the party furnishing the same.

XII. INDEMNIFICATION AND SURVIVAL.

12.1. Indemnification by Sellers. Subject to Sections 12.3 and 12.4, Sellers will jointly and severally indemnify and hold Buyer harmless against any and all Losses to which Buyer becomes subject or which Buyer suffers or incurs, insofar as such Losses arise out of or result from (a) the Excluded Liabilities, (b) the inaccuracy of any representation or warranty of Sellers contained herein, (c) the breach of any covenant of Sellers contained herein, (d) subject to Sections 2.3.4 and 13.8, any Tax imposed upon either Seller or the Transferred Assets for any event or period through the Closing Date and (e) any failure to comply with any bulk transfer or similar law in connection with the transactions contemplated hereby or, subject to the provisions of Section 8.7, the imposition on Buyer of any liability or obligation of Sellers that are not Assumed Liabilities pursuant to any successor liability law. As used herein, "Losses" means losses, liabilities, claims, damages, costs and expenses (including reasonable attorneys' fees and costs of investigation), whether or not involving a third party claim; provided that Losses shall not include (i) any multiple, punitive or exemplary damages, except to the extent resulting from third party claims, (ii) consequential or special damages, except to the extent proximately resulting from any inability to operate the Transferred Assets in a manner consistent with the Business, or (iii) any matter to the extent taken into account on the Closing Statement.

12.2. Indemnification by Buyer. Subject to Sections 12.3 and 12.4, Buyer will indemnify and hold Sellers harmless against any and all Losses to which either Seller becomes subject or which either Seller suffers or incurs, insofar as such Losses arise out of or result from (a) the Assumed Liabilities, (b) the inaccuracy of any representation or warranty of Buyer contained herein, (c) the breach of any covenant of Buyer contained herein or (d) except for matters as to which Buyer is entitled to indemnification pursuant to Section 12.1, the operation or use of the Transferred Assets subsequent to the Closing Date.

12.3. Limitations on Liability.

12.3.1. Time Limitations and Survival. The representations, warranties, covenants and agreements of the parties shall survive the Closing and any investigation by the parties. Any claim by any party with respect to any representation or warranty, or any covenant to be performed on or prior to the Closing Date, by another party for indemnification must be made by written notice given within twelve (12) months after the Closing Date; provided that (i) claims with respect to the representations and warranties contained in Section 3.15 may be made by

written notice within three (3) years after the Closing Date and (ii) claims with respect to the representations and warranties contained in Section 3.13.6 may be made by written notice until the earlier of four (4) years after the Closing Date or the conclusion of Buyer's next rate case with respect to the Business.

12.3.2. Limitation on Amount. Sellers will have no obligation to indemnify Buyer for any Losses pursuant to clause (b) (other than in respect of Section 3.13.6) or clause (c) (to the extent relating to covenants to be performed on or prior to the Closing Date) of Section 12.1, except to the extent that such Losses, taken together, exceed \$100,000 (provided that if a Loss relates to breach of a representation or warranty contained in Section 3.15 relating to Matters of Environmental Concern, such Loss shall be subject to the \$200,000 deductible provided in Section 8.7(a) and not towards this \$100,000 deductible), and then only to the extent of such excess. In no event shall Sellers be liable for aggregate Losses under Sections 12.1(b) (other than in respect of Section 3.15 or Section 3.13.6) and 12.1(c) (but only in respect of the covenants in Section 5.2) of more than \$3.2 million.

12.3.3. Other Limitations. If any indemnified party may have the right to recover Losses from a third party (other than an insurer) in addition to the indemnifying party, the indemnified party shall assign to the indemnifying party any such right remaining against such third party after the indemnified party shall have recovered all of its Losses, and shall reasonably cooperate (at the expense of the indemnifying party) in pursuing any rights against such third party.

12.4. Indemnification Procedure. Promptly after receipt by any indemnified party of notice of the commencement of any action, proceeding, or claim in respect of which the indemnified party intends to seek indemnification pursuant to Section 12.1 or 12.2, the indemnified party shall notify the indemnifying party in writing; provided that the omission to so notify shall not relieve the indemnifying party of its indemnification obligations except to the extent the indemnifying party is materially prejudiced thereby. The indemnifying party shall be entitled to assume control of the defense of such action or claim with counsel reasonably satisfactory to the indemnified party; provided, however, that:

(i) the indemnified party shall be entitled to participate in the defense of such claim and to employ counsel at its own expense to assist in the handling of such claim;

(ii) no indemnifying party shall consent to the entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by each claimant or plaintiff to the indemnified party of a release from all liability in respect of such claim or if, pursuant to or as a result of such consent or settlement, injunctive or other equitable relief would be imposed against the indemnified party or such judgment or settlement could materially interfere with the business, operations or assets of the indemnified party; and

(iii) after written notice by the indemnifying party to the indemnified party of its election to assume control of the defense of any such action in accordance with the foregoing provisions, the indemnifying party shall not be liable to such indemnified party hereunder for any legal fees, costs and expenses subsequently incurred by such indemnified party in connection with the defense thereof.

If the indemnifying party does not assume control of the defense of such claim in accordance with the foregoing provisions, the indemnified party shall have the right to defend such claim in such manner as it may deem appropriate at the reasonable cost and expense of the indemnifying party, and the indemnifying party will promptly reimburse the indemnified party therefore in accordance with this Section 12.4; provided that the indemnified party shall not be entitled to consent to the entry of any judgment or enter into any settlement of such claim without the prior written consent of the indemnifying party (not to be unreasonably withheld).

12.5. Exclusive Remedies. If the Closing occurs, then the remedies provided in this Article XII shall constitute the sole and exclusive remedies with respect to all claims for breach of any representation or warranty, or covenant to be performed on or prior to the Closing Date, contained in this Agreement, except for fraud or other willful dishonesty. Notwithstanding the foregoing, the provisions of this Article XII shall not affect the rights of any party hereto against any third party (including a third party whose claim against a party hereto is the basis of a claim for indemnification) and shall not inure to the benefit of any third party.

XIII. MISCELLANEOUS.

13.1. Entire Agreement. This Agreement (including the Exhibits and Schedules hereto) and the Confidentiality Agreement referred to in Section 8.3 constitute the entire understanding of the parties with respect to the subject matter hereof and, except as provided in Section 8.3, supersedes all other prior or contemporaneous oral or written statements by any party with respect thereto.

13.2. Waiver of Bulk Transfer Requirements. Subject to Section 12.1, Buyer agrees to waive Sellers' compliance with Article 6 of the Uniform Commercial Code (Bulk Transfers), as in effect in any jurisdiction, or any other applicable bulk sales law.

13.3. Successors and Assigns. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors of the parties hereto; provided, however, that this Agreement may not be assigned by Buyer without the prior written consent of Sellers, which consent shall not be unreasonably withheld in the case of an assignment to an entity that is controlled by Buyer.

13.4. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original and all of which shall constitute the same instrument.

13.5. Headings. The headings of the sections and paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute a part of this Agreement or to affect the construction hereof.

13.6. Modification and Waiver. No amendment, modification or alteration of the terms or provisions of this Agreement shall be binding unless the same shall be in writing and duly executed by the parties hereto, except that any of the terms or provisions of this Agreement may be waived in writing at any time by the party which is entitled to the benefits of such waived terms or provisions. No waiver of any of the provisions of this Agreement shall be deemed to or shall constitute a waiver of any other provision hereof (whether or not similar). No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

13.7. No Third-Party Beneficiary Rights. This Agreement is not intended to and shall not be construed to give any person or entity other than the parties signatory hereto any interest or rights (including, without limitation, any third party beneficiary rights) with respect to or in connection with any agreement or provision contained herein or contemplated hereby.

13.8. Sales and Transfer Taxes. Sellers, on the one hand, and Buyer, on the other, shall each be responsible for and pay one-half (1/2) of all applicable sales, transfer, documentary, or use taxes and recording and filing fees ("Transfer Taxes") that may become due or payable as a result of the sale, conveyance, assignment, transfer or delivery of any of the Transferred Assets or the transactions contemplated hereby whether levied on Buyer, Sellers or any Affiliate of Sellers. At the Closing, Sellers shall execute and deliver to Buyer any certificates or other documents as Buyer may reasonably request to claim available exemptions from the payment of Transfer Taxes under applicable law.

13.9. Expenses. Except as expressly provided otherwise herein, each of Sellers and Buyer shall pay all costs and expenses incurred by it or on its behalf in connection with this Agreement and the transactions contemplated hereby, including, without limiting the generality of the foregoing, fees and expenses of its own financial consultants, accountants and counsel.

13.10. Waiver of Conditions. The conditions to each party's obligations hereunder are for the sole benefit of such party and may be waived by such party in whole or in part to the extent permitted by applicable law.

13.11. Notices. Any notice, request, instruction or other document to be given hereunder by either party hereto to the other party shall be in writing and shall be sent by telefax (with confirmation received of the recipient's number) to the number stated below or shall be delivered personally or sent by registered or certified mail (postage prepaid and return receipt requested) to the address stated below.

If to either Seller, to:

Southwestern Energy Company
1083 Sain Street
Fayetteville, AR 72703

Attention: Greg D. Kerley
Senior Vice President
and
Chief Financial Officer
Telephone: (501) 521-1141
Telefax: (501) 521-1147

With a copy to:

Cahill Gordon & Reindel
80 Pine Street
New York, New York 10005

Attention: Gary W. Wolf,
Esq.
Telephone: (212) 701-3000
Telefax: (212) 269-5420

If to Buyer, to:

Atmos Energy Corporation
1800 Three Lincoln Center

5430 LBJ Freeway
Dallas, Texas 75240
Attention: John P. Reddy
Telephone: (972)
934-9227
Telefax: (972)
855-3080

With a copy to:

Gibson, Dunn & Crutcher LLP
1717 Main Street, Suite 5400
Dallas, Texas 75201-7390

Attention: Irwin F. Sentilles, III,
Esq.
Telephone: (214) 698-3100
Telefax: (214) 698-3400

or at such other telefax number or address for a party as shall be specified by like notice. Any notice which is delivered personally in the manner provided herein shall be deemed to have been duly given to the party to whom it is directed upon actual receipt by such party. Any notice which is sent by telefax or addressed and mailed in the manner herein provided shall be conclusively presumed to have been duly given to the party to which it is addressed on the date indicated on the telefax confirmation or the postal receipt.

13.12. Knowledge of Sellers. For purposes of this Agreement, "knowledge of Sellers" or any similar term shall mean the actual knowledge of an executive officer of Parent or of Charles V. Stevens, Senior Vice President of AWG, after reasonable inquiry.

13.13. Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Arkansas applicable to agreements made and to be performed wholly within such jurisdiction without regard to the conflicts of laws provisions thereof. Each of the parties agrees to (i) the irrevocable designation of the Secretary of State of the State of Arkansas as its agent upon whom process against it may be served and (ii) personal jurisdiction in any action brought in any court, Federal or State, within the State of Arkansas having subject matter jurisdiction over matters arising under this Agreement. Any suit, action or proceeding arising out of or relating to this Agreement shall only be instituted in a Federal or State court located in the State of Arkansas. Each party waives any objection which it may have now or hereafter to the laying of the venue of such suit, action or proceeding, and irrevocably submits to the jurisdiction of any such court in any such suit, action or proceeding.

13.14. Waiver of Jury Trial. Each of Sellers and Buyer hereby irrevocably waives all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the actions of Sellers or Buyer in the negotiations, administration, performance and enforcement thereof.

13.15. Announcements. No party hereto shall make any public statements, including, without limitation, any press release, with respect to this Agreement and the transactions contemplated hereby

without the prior written consent of the other parties, other than as may be required by law, which consent shall not be unreasonably withheld.

13.16. Severability. If any term or other provision of this Agreement is held to be invalid, illegal or incapable of being enforced by any court having jurisdiction, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed on its behalf as of the date first above written.

SELLERS:

SOUTHWESTERN ENERGY COMPANY

By: /s/GREG D. KERLEY

Greg D. Kerley
Senior Vice President

ARKANSAS WESTERN GAS COMPANY

By: /s/GREG D. KERLEY

Greg D. Kerley
Senior Vice President

BUYER:

ATMOS ENERGY CORPORATION

By: /s/LARRY J. DAGLEY

Larry J. Dagley
Executive Vice President and
Chief Financial Officer

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated February 4, 2000 included in this Form 10-K, into the Company's previously filed Registration Statement on Form S-8 (File No. 333-96161).

Tulsa, Oklahoma
March 29, 2000

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1999
PERIOD END	DEC 31 1999
CASH	1,240
SECURITIES	0
RECEIVABLES	43,339
ALLOWANCES	0
INVENTORY	21,520
CURRENT ASSETS	70,172
PP&E	1,095,882
DEPRECIATION	519,927
TOTAL ASSETS	671,446
CURRENT LIABILITIES	56,346
BONDS	294,700
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	2,774
OTHER SE	187,582
TOTAL LIABILITY ANDEQUITY	671,446
SALES	272,359
TOTAL REVENUES	280,396
CGS	0
TOTAL COSTS	244,338
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	17,351
INCOME PRETAX	16,376
INCOME TAX	6,449
INCOME CONTINUING	9,927
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	9,927
EPS BASIC	.40
EPS DILUTED	.40

End of Filing