

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

**FORM 10-Q**

(Mark one)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934  
For the quarterly period ended March 31, 2000

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 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)

(501) 521-1141

(Registrant's telephone number, including area code)

No Change

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at May 4,
2000 ----- -----	
Common Stock, Par Value \$.10	25,035,154

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**PART I**

**FINANCIAL INFORMATION**



**SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(Unaudited)

**ASSETS**

	March 31,	December
31,	2000	1999
-----		
(\$ in thousands)		
Current Assets		
Cash	\$ 1,254	\$ 1,240
Accounts receivable	42,189	43,339
Inventories, at average cost	13,486	21,520
Other	3,005	4,073
	-----	-----
Total current assets	59,934	70,172
	-----	-----
Investments	13,545	14,180
	-----	-----
Property, Plant and Equipment, at cost		
Gas and oil properties, using the full cost method	827,983	816,199
Gas distribution systems	222,957	222,145
Gas in underground storage	25,834	28,712
Other	29,058	28,826
	-----	-----
	1,105,832	1,095,882
Less: Accumulated depreciation, depletion and amortization	530,736	519,927
	-----	-----
	575,096	575,955
	-----	-----
Other Assets	11,050	11,139
	-----	-----
Total Assets	\$ 659,625	\$ 671,446
	=====	=====

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

**SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(Unaudited)

**LIABILITIES AND SHAREHOLDERS' EQUITY**

31,	March 31,	December
-----	2000	1999
-----	-----	
-----	(\$ in thousands)	
Current Liabilities		
Short-term debt	\$ -	\$ 7,500
Accounts payable	27,049	33,069
Taxes payable	5,291	3,506
Interest payable	7,117	2,483
Customer deposits	6,029	6,021
Other	2,467	3,767
Total current liabilities	47,953	56,346
Long-Term Debt, less current portion above	278,400	294,700
Other Liabilities		
Deferred income taxes	131,924	126,902
Other	3,143	3,142
	135,067	130,044
Commitments and Contingencies		
Shareholders' Equity		
Common stock, \$.10 par value; authorized 75,000,000 shares, issued 27,738,084 shares	2,774	2,774
Additional paid-in capital	20,732	20,732
Retained earnings	205,728	198,044
Less: Common stock in treasury, at cost, 2,700,731 shares in 2000 and 2,700,391 shares in 1999	30,087	30,083
Unamortized cost of 179,275 restricted shares in 2000 and 188,781 restricted shares in 1999, issued under stock incentive plan	942	1,111
	198,205	190,356
Total Liabilities and Shareholders' Equity	\$ 659,625	\$ 671,446

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

**SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	Quarter Ended March 31,	
	2000	1999
	(\$ in thousands, except per share amounts)	
Operating Revenues		
Gas sales	\$ 60,292	\$ 60,939
Gas marketing	30,004	13,475
Oil sales	3,579	1,661
Gas transportation and other	3,038	2,145
	-----	-----
	96,913	78,220
	-----	-----
Operating Costs and Expenses		
Gas purchases - utility	19,263	20,360
Gas purchases - marketing	28,663	12,088
Operating and general	14,786	13,923
Depreciation, depletion and amortization	11,091	10,372
Taxes, other than income taxes	2,054	1,548
	-----	-----
	75,857	58,291
	-----	-----
Operating Income	21,056	19,929
	-----	-----
Interest Expense		
Interest on long-term debt	5,201	4,834
Other interest charges	192	283
Interest capitalized	(637)	
(839)		
	-----	-----
	4,756	4,278
	-----	-----
Other Income (Expense)	(1,241)	
(680)		
	-----	-----
Income Before Income Taxes	15,059	14,971
	-----	-----
Income Tax Provision		
Current	872	5,370
Deferred	5,001	469
	-----	-----
	5,873	5,839
	-----	-----
Net Income	\$ 9,186	\$ 9,132
	=====	=====
Basic Earnings Per Share	\$0.37	\$0.37
	=====	=====
Weighted Average Common Shares Outstanding	25,037,508	24,933,919
	=====	=====
Diluted Earnings Per Share	\$0.37	\$0.37
	=====	=====
Diluted Weighted Average Common Shares Outstanding	25,063,076	24,933,919
	=====	=====
Dividends Declared Per Share Payable 5/5/00 and 5/5/99	\$ .06	\$ .06
	=====	=====

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

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**SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	Quarter Ended March 31,	
	2000	1999
	(\$ in thousands)	
Cash Flows From Operating Activities		
Net income	\$ 9,186	\$ 9,132
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	11,394	10,715
Deferred income taxes	5,001	469
Equity in loss of partnership	634	557
Change in assets and liabilities:		
Decrease in accounts receivable	1,150	6,493
Change in income taxes receivable/payable	1,222	4,814
Decrease in inventories	8,034	5,550
Decrease in accounts payable	(6,020)	
(10,093)		
Increase in interest payable	4,634	4,562
Net change in other current assets and liabilities	340	3,088
Net cash provided by operating activities	35,575	35,287
Cash Flows From Investing Activities		
Capital expenditures	(14,557)	
(13,714)		
Decrease in gas stored underground	2,878	5,161
Other items	1,420	935
Net cash used in investing activities	(10,259)	
(7,618)		
Cash Flows From Financing Activities		
Net change in revolving long-term debt	(16,300)	
(26,200)		
Payment on revolving short-term debt	(7,500)	-
Cash dividends	(1,502)	
(1,496)		
Net cash used in financing activities	(25,302)	
(27,696)		
Increase (decrease) in cash	14	
(27)		
Cash at beginning of year	1,240	1,622
Cash at end of period	\$ 1,254	\$ 1,595

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

# SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2000

### 1. BASIS OF PRESENTATION

The financial statements included herein are unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. The Company's accounting policies are summarized in the 1999 Annual Report on Form 10-K, Item 8, Notes to Consolidated Financial Statements.

### 2. EARNINGS PER SHARE

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 1,582,916 shares of common stock with a weighted average exercise price of \$11.85 per share at March 31, 2000, and options for 1,634,901 shares with an average exercise price of \$12.15 per share at March 31, 1999, that were not included in the calculation of diluted shares because they would have had an antidilutive effect.

### 3. DIVIDEND PAYABLE

A dividend of \$.06 per share was declared April 5, 2000, payable May 5, 2000.

### 4. 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 are 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)				
Three months ended March 31, 2000:					
Revenues from external customers	\$ 13,715	\$ 53,194	\$ 30,004	\$ -	\$ 96,913
Intersegment revenues	11,046	54	13,241	112	24,453
Depreciation, depletion and amortization expense	9,240	1,810	18	23	11,091
Operating income	8,688	11,370	965	33	21,056
Interest expense(1)	3,238	1,253	-	265	4,756
Provision (benefit) for income taxes(1)	1,902	3,930	379	(338)	5,873
Assets	431,829	179,854	14,598	33,344(2)	659,625
Capital expenditures	13,111	1,280	-	166	14,557

Three months ended March 31, 1999:

Revenues from external customers	\$ 11,678	\$ 53,067	\$ 13,475	\$ -	\$ 78,220
Intersegment revenues	8,703	51	8,519	96	17,369
Depreciation, depletion and amortization expense	8,565	1,767	18	22	10,372
Operating income	5,886	12,950	1,046	47	19,929
Interest expense(1)	2,715	1,260	26	277	4,278
Provision (benefit) for income taxes(1)	1,212	4,534	398	(305)	5,839
Assets	406,800	180,662	7,358	34,778(2)	629,598
Capital expenditures	12,183	1,375	7	149	13,714

[FN]

(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 the NOARK Pipeline System, Limited Partnership, 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.

## 5. DERIVATIVE AND HEDGING ACTIVITIES

In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" (SFAS No. 137). FASB Statement No. 133 (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. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000, as amended in SFAS 137, and cannot be applied retroactively.

The Company has not yet quantified the impacts of adopting SFAS No. 133 on its financial statements. However, it should be noted that SFAS No. 133 could increase volatility in future reported earnings and other comprehensive income.

## 6. INTEREST AND INCOME TAXES PAID

The following table provides interest and income taxes paid during each period presented.

Quarter Ended March 31	2000	1999
-----		
	(in thousands)	
Interest payments	\$606	\$307
Income tax payments	\$ -	\$429

## 7. 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 March 31, 2000 and December 31, 1999, the principal outstanding for these Notes was \$77.0 million. 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, 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 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. All appeal briefs have been filed and oral argument has been set for May 25, 2000. A decision from the court is likely by the end of July 2000. 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 March 31, 2000 and December 31, 1999, 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.

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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following updates information as to the Company's financial condition provided in the Company's Form 10-K for the year ended December 31, 1999, and analyzes the changes in the results of operations between the three month period ended March 31, 2000, and the comparable period of 1999.

**RESULTS OF OPERATIONS**

Net income for the three months ended March 31, 2000, was \$9.2 million, or \$.37 per share, compared to \$9.1 million, or \$.37 per share, in 1999. Improved operating results experienced by the exploration and production segment during the first quarter offset a decline in operating income experienced by the natural gas utility segment caused by record warm weather. The exploration and production segment benefited from both increased production and higher commodity prices.

The following tables compare operating revenues and operating income by business segment for the first three months of 2000 and 1999:

	2000	1999	Increase
(Decrease)	-----	-----	
-----			
		(in thousands)	
Revenues			
Exploration and production	\$ 24,761	\$ 20,381	\$ 4,380
Gas distribution	53,248	53,118	130
Marketing and other	43,357	22,090	21,267
Eliminations	(24,453)	(17,369)	
(7,084)			
	-----	-----	-----
	\$ 96,913	\$ 78,220	\$ 18,693
	=====	=====	=====
Operating Income			
Exploration and production	\$ 8,688	\$ 5,886	\$ 2,802
Gas distribution	11,370	12,950	
(1,580)			
Marketing and other	998	1,093	
(95)			
	-----	-----	-----
	\$ 21,056	\$ 19,929	\$ 1,127
	=====	=====	=====

**Exploration and Production**

Revenues for the exploration and production segment were up 21% and operating income was up 48% for the three months ended March 31, 2000, as compared to the same period in 1999. The Company benefited from both higher gas and oil prices and increased gas and oil production. Gas and oil production during the first quarter of 2000 was 8.7 billion cubic feet (Bcf) equivalent, up from 8.3 Bcf equivalent in the fourth quarter and 8.5 Bcf equivalent for the same period in 1999. The increase in production resulted from new wells added in 1999. Gas production was 7.8 Bcf for the three months ended March 31, 2000, compared to 7.7 Bcf for the same period in 1999. The Company's sales to its gas distribution systems were 3.5 Bcf during the three months ended

March 31, 2000, compared to 3.2 Bcf for the same period in 1999. The Company's oil production was 155 thousand barrels (MBbls) during the three months ended March 31, 2000, up from 137 MBbls for the same period of 1999.

The Company received an average price of \$2.62 per thousand cubic feet (Mcf) for its gas production for the three months ended March 31, 2000, up from \$2.46 per Mcf for the same period of 1999. The Company hedged 4.0 Bcf of gas production in the first quarter of 2000 at \$2.50 per Mcf which had the effect of reducing the average gas price by \$.06 during the quarter. On a comparative basis, the average price during the first quarter of 1999 included the positive effect of hedges that increased the average price by \$.47 per Mcf. Additionally, the Company receives monthly demand charges related to the no-notice service it makes available to the utility segment which increases the Company's average gas price received. The Company has hedged approximately 5.5 Bcf of its production in each of the second and third quarters of 2000 at an average NYMEX price of \$2.37, and has hedged 2.6 Bcf in the fourth quarter at an average price of \$2.38 per Mcf. Additionally, the Company has natural gas price collars on 4.5 Bcf of its fourth quarter 2000 gas production that have an average NYMEX price floor of \$2.52 per Mcf and an average ceiling price of \$3.62 per Mcf. The Company received an average price of \$23.03 per barrel for its oil production during the three months ended March 31, 2000, up from \$12.16 per barrel for the same period of 1999. For the remainder of 2000, the Company has hedges in place for 470,000 barrels at an average price of \$23.25 per barrel.

### **Gas Distribution**

Operating income of the gas distribution segment decreased 12% in the first quarter of 2000, as compared to the first quarter of 1999. The decrease in operating income was primarily due to weather which was 21% warmer than normal and 6% warmer than in the same period of 1999. A reduction in rates that became effective December 1999 also contributed to the decrease. The decrease in rates was the result of an agreement with the Staff of the Arkansas Public Service Commission during the third quarter of 1999 to close multiple open dockets and to reduce annual rates by \$1.4 million. The utility systems delivered 12.1 Bcf to sales and end-use transportation customers during the three months ended March 31, 2000, down from 12.6 Bcf for the same period in 1999.

The Company's average rate for its utility sales increased during the first quarter of 2000 to \$5.47 per Mcf, up from \$5.09 per Mcf for the same period in 1999. The increase reflected higher prices paid for purchases of natural gas which are passed through to customers under automatic adjustment clauses.

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 long term debt. The sale has received all required regulatory approvals and is expected to close by June 1, 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 materially impact earnings as the loss in operating income should be 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 131,000 customers.

### **Marketing and NOARK Pipeline**

Operating income for the marketing segment was \$1.0 million for the first quarter of 2000, even with the same period in 1999, as an increase in gas marketing revenues was offset by a comparable increase in purchased gas costs. The Company marketed 18.2 Bcf of gas in the first three months of 2000, compared to 12.7 Bcf for the same period in 1999.

The Company's share of the NOARK Pipeline System Limited Partnership (NOARK) pre-tax loss included in other income was \$.6 million for the first quarter of 2000, even with the same period in 1999.

### **Operating Costs and Expenses**

Operating costs and expenses, exclusive of purchased gas costs, increased 8% in the first quarter of 2000, as compared to the same period in 1999. The increase was primarily caused by higher operating and general expenses and increased depreciation, depletion and amortization expense. The increase in operating and general expenses was due primarily to increased production costs and increased severance and ad valorem taxes in the exploration and production segment. The increase in depreciation, depletion and amortization expense was due to the increase in production in the exploration and production segment and an increase in the amortization rate per unit of production. The amortization rate for this segment averaged \$1.03 per Mcf equivalent for the first quarter of 2000, compared to \$.98 per Mcf equivalent in the first quarter of 1999. The changes in purchased gas costs for the gas distribution and marketing segments reflect volumes purchased, prices paid for supplies and the mix of purchases from intercompany versus third party sources.

The Company utilizes the full cost method of accounting for costs related to its oil and natural gas properties. Under this method, all such costs (productive and nonproductive) are capitalized and amortized on an aggregate basis over the estimated lives of the properties using the units-of-production method. These capitalized costs are subject to a ceiling test, however, which limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved gas and oil reserves discounted at 10 percent plus the lower of cost or market value of unproved properties. At March 31, 2000, the Company's unamortized costs of oil and gas properties did not exceed this ceiling amount. The Company's full cost ceiling is evaluated at the end of each quarter. A decline in gas and oil prices from current levels, or other factors, without other mitigating circumstances, could cause a future write-down of capitalized costs and a non-cash charge against future earnings.

Interest expense for the three months ended March 31, 2000, was up 11% compared to the same period in 1999, due to higher average borrowings and a lower level of capitalized interest. Interest is capitalized in the exploration and production segment on costs that are unevaluated and excluded from amortization.

The changes in the provisions for current and deferred income taxes recorded in the three month period ended March 31, 2000, as compared to the same period in 1999, resulted primarily from the level of taxable income and from 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.

## **CHANGES IN FINANCIAL CONDITION**

Changes in the Company's financial condition at March 31, 2000, as compared to December 31, 1999, primarily reflect the seasonal nature of the gas distribution segment of the Company's business.

Routine capital expenditures, cash dividends and scheduled debt retirements are predominantly funded through cash provided by operations. For the first three months of 2000 and 1999, net cash provided by operating activities was \$35.6 million and \$35.3 million, respectively, and exceeded the total of these routine requirements.

### **Financing Requirements**

The Company has access to \$80.0 million of variable rate capital through two banks. Of this amount, long-term variable rate credit facilities provide the Company access to \$60.0 million of revolving credit, and a short-term variable rate credit facility provides the Company access to \$20.0 million of revolving credit. Of those amounts, \$31.4 million was outstanding at March 31, 2000, all of which was classified as long-term debt. During the first quarter of 2000, the Company's revolving debt was reduced by \$23.8 million, due to seasonally strong cash flow. As a result, long-term debt at March 31, 2000, accounted for 58% of the Company's capitalization, down from 61% at December 31, 1999, and should drop to approximately 55% after the Company closes the sale of its Missouri utility properties prior to June 1, 2000.

The Company expects its outstanding borrowings to increase during the remaining months of 2000 as cash generated from operations will be less than the requirements for routine capital expenditures and cash dividends due to lower levels of heating-generated revenues and seasonally higher capital expenditures resulting from favorable drilling and construction weather. The Company's capital expenditures for the first three months of 2000 were \$14.6 million, compared to \$13.7 million for the same period in 1999.

The Company remains confident that it will prevail in its appeal of the royalty owners proceeding described in Part II, Item 1 and in Note 7 to the Consolidated Financial Statements included in this Form 10-Q. 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.

At March 31, 2000, the NOARK partnership had outstanding debt totaling approximately \$77.0 million. 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%.

### **Working Capital**

Accounts receivable has declined since December 31, 1999, due primarily to seasonally lower gas deliveries of the gas distribution segment, offset partially by increases in sales by the marketing segment. The decrease in inventories since December 31, 1999, is both the result of withdrawals of gas stored underground to meet seasonal requirements in the gas distribution segment and sales of gas to unaffiliated parties from the Company's unregulated underground storage facility.

Accounts payable has declined since December 31, 1999, due primarily to seasonally lower gas purchases of the gas distribution segment and to the timing of expenditures. Short-term debt has declined since December 31, 1999 due to the pay off of the Company's short-term revolving credit facility. The increase in interest payable is due to the timing of interest payments on the Company's long-term debt. Other changes in current assets and current liabilities between periods resulted primarily from the timing of expenditures and receipts.

### **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.

## PART I

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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 6% of accounts receivable. See the discussion of credit risk associated with commodities trading below.

#### Interest Rate Risk

The Company's long-term debt obligations are sensitive to changes in interest rates. 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 March 31, 2000. There have been no material changes in the interest rate risk information that was presented in the Company's 1999 10-K.

#### 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), 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 March 31, 2000. At March 31, 2000, the "Carrying Amount" of these financial instruments exceeded the "Fair Value" by \$11.1 million.

	Expected Maturity Date					
	2000		2001		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Natural Gas:</b>						
Swaps with a fixed price receipt						
Contract volume (Bcf)	13.7		.7		.5	
Weighted average price per Mcf	\$2.36		\$2.57		\$2.57	
Contract amount (in millions)	\$32.4	\$24.0	\$1.7	\$1.5	\$1.2	\$1.1
Swaps with a fixed price payment						
Contract volume (Bcf)	.3		-		-	
Weighted average price per Mcf	\$2.86		-		-	
Contract amount (in millions)	\$.9	\$.9	-	-	-	-
Price collar						
Contract volume (Bcf)	4.4		9.6		-	
Weighted average floor price per Mcf	\$2.52		\$2.56		-	
Contract amount of floor (in millions)	\$11.0	\$11.5	\$24.6	\$25.5	-	-
Weighted average ceiling price per Mcf	\$3.62		\$3.19		-	
Contract amount of ceiling (in millions)	\$15.7	\$14.7	\$30.6	\$29.4	-	-
<b>Oil:</b>						
Swaps with a fixed price receipt						
Contract volume (MBbls)	4.4		9.6		-	
Weighted average price per Bbl	\$23.24		\$17.49		-	
Contract amount (in millions)	\$11.1	\$9.7	\$1.3	\$.9	-	-
Price floor						
Contract volume (MBbls)	-		325		-	
Weighted average price per Bbl	-		\$18.00		-	
Contract amount (in millions)	-	-	\$5.9	\$6.1	-	-

## PART II

### OTHER INFORMATION

#### Item 1

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. All appeal briefs have been filed and oral argument has been set for May 25, 2000. A decision from the court is likely by the end of July 2000. 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 March 31, 2000 and December 31, 1999, 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.

**Items 2 - 6(b)**

No developments required to be reported under Items 2 - 6(b) occurred during the quarter ended March 31, 2000.

## Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### SOUTHWESTERN ENERGY COMPANY

*Registrant*

DATE: *May 5, 2000*

*/s/ GREG D. KERLEY*

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*Greg D. Kerley  
Executive Vice President  
and Chief Financial*

*Officer*

**ARTICLE 5**

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 2000
PERIOD END	MAR 31 2000
CASH	1,254
SECURITIES	0
RECEIVABLES	42,189
ALLOWANCES	0
INVENTORY	13,486
CURRENT ASSETS	59,934
PP&E	1,105,832
DEPRECIATION	(530,736)
TOTAL ASSETS	659,625
CURRENT LIABILITIES	47,953
BONDS	278,400
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	2,774
OTHER SE	195,431
TOTAL LIABILITY ANDEQUITY	659,625
SALES	93,875
TOTAL REVENUES	96,913
CGS	0
TOTAL COSTS	75,857
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	4,756
INCOME PRETAX	15,059
INCOME TAX	5,873
INCOME CONTINUING	9,186
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	9,186
EPS BASIC	0.37
EPS DILUTED	0.37

# End of Filing