SOUTHWESTERN ENERGY CO
Form 424B2
September 12, 2005

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and Southwestern Energy Company is not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(2)
Registration No. 333-126884

Subject to completion, dated September 12, 2005

PROSPECTUS SUPPLEMENT
(To Prospectus dated September 1, 2005)

7,300,000 Shares
Common Stock

Southwestern Energy Company is offering 7,300,000 shares of its common stock.

Our common stock is listed on the New York Stock Exchange under the symbol SWN. The last reported sale price of our common stock on the New York Stock Exchange on September 9, 2005 was $57.45 per share.

Investing in the common stock involves risks that are described in the Risk Factors section beginning on page S-10 of this prospectus supplement.

PRICE $ PER SHARE

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Southwestern	$	$

The underwriters may also purchase up to an additional 1,095,000 shares from Southwestern at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares of common stock will be ready for delivery on or about September , 2005.

RBC Capital Markets **JPMorgan**

Banc of America Securities LLC
A.G. Edwards
Friedman Billings Ramsey
Hibernia Southcoast Capital
KeyBanc Capital Markets
Simmons & Company International
SunTrust Robinson Humphrey

, 2005

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. We are offering to sell the shares, and seeking offers to buy the shares, only in jurisdictions where offers and sales are permitted. You should not assume that the information we have included in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the respective dates shown or that any information we have incorporated by reference to another document is accurate as of any date other than the date of such document. Our business, financial condition, results of operations and prospects may have changed since the date of this prospectus supplement.

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RESERVE ESTIMATES

This prospectus supplement and the documents incorporated herein by reference contain estimates of our proved natural gas and oil reserves and the estimated future net revenues from such reserves. These estimates are based upon various assumptions, including assumptions required by the Securities and Exchange Commission, or the SEC, relating to natural gas and oil prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating natural gas and oil reserves is complex. This process requires significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. Therefore, these estimates are inherently imprecise.

Actual future production, natural gas and oil prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable natural gas and oil reserves will most likely vary from those estimated. Such variances may be material. Any significant variance could materially affect the estimated quantities and present value of reserves set forth in this prospectus supplement, the accompanying prospectus and the information incorporated by reference. Our properties may also be susceptible to hydrocarbon drainage from production by other operators on adjacent properties. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing natural gas and oil prices and other factors, many of which are beyond our control.

At December 31, 2004, approximately 17% of our estimated proved reserves were proved undeveloped and 5% were proved developed non-producing. Proved undeveloped reserves and proved developed non-producing reserves, by their nature, are less certain than proved developed producing reserves. Estimates of reserves in the non-producing categories are nearly always based on volumetric calculations rather than the performance data used to estimate producing reserves. Recovery of proved undeveloped reserves requires significant capital expenditures and successful drilling operations. Recovery of proved developed non-producing reserves requires capital expenditures to recomplete into the zones behind pipe and is subject to the risk of a successful recompletion. Production revenues from proved undeveloped and proved developed non-producing reserves will not be realized, if at all, until sometime in the future. The reserve data assumes that we will make significant capital expenditures to develop our reserves. Although we have prepared estimates of our natural gas and oil reserves and the costs associated with these reserves in accordance with industry standards, we cannot assure you that the estimated costs are accurate, that development will occur as scheduled or that the actual results will be as estimated.

You should not assume that the present value of future net cash flows referred to in this prospectus supplement or the documents incorporated by reference herein is the current fair value of our estimated natural gas and oil reserves. In accordance with SEC requirements, the estimated discounted future net cash flows from proved reserves are generally based on prices and costs as of the date of the estimate. Actual future prices and costs may be materially higher or lower than the prices and costs as of the date of the estimate. Any changes in consumption by gas purchasers or in governmental regulations or taxation could also affect actual future net cash flows. The timing of both the production and the expenses from the development and production of natural gas and oil properties will affect the timing of actual future net cash flows from proved reserves and their present value. In addition, the 10% discount factor, which is required by the SEC to be used in calculating discounted future net cash flows for reporting purposes, is not necessarily the most accurate discount factor for our company.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information from this prospectus supplement, the accompanying prospectus and the documents incorporated by reference, but may not contain all information that may be important to you. This prospectus supplement, the accompanying prospectus and the documents incorporated by reference include specific terms of this offering, information about our business and financial data. We encourage you to read this prospectus supplement, the accompanying prospectus and all documents incorporated by reference in their entirety before making an investment decision. When used in this prospectus supplement, the terms we, our and us, except as otherwise indicated or as the context otherwise requires, refer to Southwestern Energy Company and its consolidated subsidiaries. Natural gas and oil industry terms used in this prospectus supplement are defined in the Glossary section.

Our Company

Southwestern Energy Company is an independent energy company primarily focused on the exploration for and production of natural gas. We principally operate our exploration and production, or E&P, business in four well-established productive regions the Arkoma Basin, East Texas, the Permian Basin and the onshore Gulf Coast. In addition to our core operations, we actively seek to develop new conventional exploration projects as well as unconventional plays, which we refer to as New Ventures, with significant exploration and exploitation potential. We are also focused on creating and capturing additional value at and beyond the wellhead through our established natural gas distribution, marketing and transportation businesses, our expanding gathering activities and our forthcoming drilling rig operations.

We are focused on providing long-term growth in the net asset value of our business, which we achieve in our E&P business through the drillbit. Over the past five years, we have averaged annual production growth of approximately 10% and annual reserve growth of approximately 13%. Our gas and oil production increased to 29.0 Bcfe for the six months ended June 30, 2005 and was 54.1 Bcfe for fiscal year 2004. In 2004, we achieved a reserve replacement ratio of 365% at an average finding and development cost of $1.43 per Mcfe, including reserve revisions. Our year-end reserves grew 28% to 645.5 Bcfe, of which 92% were natural gas and 83% were proved developed. For the first six months of 2005, 93.2% of our operating income was generated by our E&P business and cash flow from our operating activities was $164.4 million. The average proved reserves-to-production ratio, or average reserve life, of our properties was approximately 11.9 years as of December 31, 2004. Our 2004 and 2005 results are largely attributable to our continued drilling success in our Overton Field, as well as our continued successful conventional drilling program in the Arkoma Basin, principally from the project area we refer to as the Ranger Anticline. We believe our Fayetteville Shale resource play, the unconventional shale gas play on the Arkansas side of the Arkoma Basin that we announced in August 2004, has the potential to significantly contribute to our future growth.

E&P Capital Investments

Our E&P capital investments are focused on executing the formula that was first developed by our management in late 1999:

*The **Right People** doing the **Right Things** wisely investing the cash flow from the underlying **Assets** will create **Value+***

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Our 2005 capital budget of $499.5 million, including $60.7 million that is contingent upon the consummation of this offering, is allocated as follows:

	Total	Contingent
	(In Millions)	
E&P:		
East Texas	$ 171.0	$ 7.9
Fayetteville Shale	132.3	5.2
Conventional Arkoma	64.9	
Permian	14.0	5.0
Gulf Coast	4.8	
New Ventures & Exploration	28.3	5.9
Drilling Rigs	54.8	21.0
Total E&P	470.1	45.0
Gathering	15.7	15.7
Utility	10.4	
Corporate	3.3	
Total 2005 Capital Budget(1)	$ 499.5	$ 60.7

(1) As of June 30, 2005, we had invested approximately $186.7 million of our 2005 capital budget.

Conventional Drilling. Our investments have continued to focus primarily on our lower-risk, high-return conventional drilling programs in East Texas and the Arkoma Basin that have driven our production and reserve growth for the past three years. These drilling programs respectively accounted for 41% and 37% of our production in 2004 and 47% and 37% of our proved reserves at December 31, 2004. We have allocated $64.9 million of our 2005 capital budget to our conventional drilling program in the Arkoma Basin and we plan to invest $171.0 million in East Texas in 2005, including $7.9 million that is contingent upon consummation of this offering. We expect to drill approximately 91 wells in East Texas in 2005, of which approximately 82 wells are planned at Overton, and to drill approximately 70 wells in 2005 as part of our conventional Arkoma drilling program, including approximately 50 wells at Ranger Anticline. As of September 7, 2005, we have drilled 50 wells at our Overton Field in East Texas, all of which were productive, and we have participated in 29 wells in our Ranger Anticline project area, of which 23 were productive and six were in the process of being drilled.

Fayetteville Shale Play. Our Fayetteville Shale resource play has emerged as a significant focus of our capital expenditures in 2005 as we have accelerated our drilling program for the play. We plan to invest $132.3 million of our 2005 E&P capital budget in our Fayetteville Shale play, including $5.2 million that is contingent upon the consummation of this offering, which includes drilling approximately 80 to 90 wells, including approximately 50 horizontal wells. Since the time our drilling program began in mid-2004 through September 7, 2005, we have drilled 56 wells and participated in one non-operated well in eight separate pilot areas across five counties in Arkansas. Twelve of the 57 wells drilled are horizontal wells. Forty-five of the wells are on production, seven are in some stage of completion or awaiting pipeline connection and five are shut-in or abandoned. The Arkansas Oil and Gas Commission has approved field rules for three of our pilot areas and a fourth is currently pending. We hold approximately 830,000 net acres (including 125,000 net acres held by conventional production) in the Fayetteville Shale play area. Our strategy going forward is to increase our production through development drilling while also determining the economic viability of the undrilled portion of our acreage through drilling in new pilot areas. Our drilling program for the Fayetteville Shale play is flexible and will be impacted by a number of factors, including the results of our horizontal drilling

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efforts, our ability to determine the most effective and economic fracture stimulation, the extent to which we can replicate the results of our successful Fayetteville Shale wells on our other Fayetteville Shale acreage as well as the gas and oil commodity price environment. We refer you to Risk Factors Our future reserve and production growth is dependent in part on the success of our Fayetteville Shale drilling program, which has a limited operational history and is subject to change.

Recent Developments

Purchase of Drilling Rigs. In July 2005, we announced that we had entered into an agreement with a private manufacturer for the fabrication of five new drilling rigs for an aggregate purchase price of $37.7 million. Including required ancillary equipment and supplies, the total cost for the five rigs is approximately $48.5 million. Approximately $33.8 million of these costs are included in capital allocated to our 2005 E&P capital program. The new rigs will facilitate the anticipated continued acceleration of our Fayetteville Shale play drilling program in 2006 and are expected to provide significant operational efficiencies over the third-party rigs we utilize. We expect delivery of the first rig in November 2005, and expect delivery of one new rig each month thereafter.

On August 31, 2005, we entered into an option agreement with the same manufacturer for the fabrication of five additional drilling rigs. The option agreement expires on September 30, 2005 and does not specify a purchase price. Subject to the consummation of this offering, we have included approximately $21.0 million for these drilling rigs in our 2005 E&P capital program using an estimated total cost of approximately $48.9 million for the additional rigs and the required ancillary equipment and supplies.

Two-For-One Stock Split. In June 2005, we distributed additional shares of our common stock to our stockholders in a two-for-one stock split that was declared by our board of directors in May 2005.

Amended and Restated Credit Facility. In January 2005, we amended and restated our $300 million revolving credit facility that was due to expire in January 2007, increasing the borrowing capacity to $500 million and extending the expiration date to January 2010. The amended and restated revolving credit facility replaced the $300 million revolving credit facility and another smaller credit facility.

Our Business Strategy

Our business strategy is focused on providing long-term growth in the net asset value of our business. Within the E&P segment, we prepare economic analyses for each of our drilling and acquisition opportunities and rank them based upon the expected present value added for each dollar invested, which we refer to as PVI. The PVI of the future expected cash flows for each project is determined using a 10% discount rate. We target creating at least $1.30 of discounted pre-tax PVI for each dollar we invest in our E&P business. Our actual PVI results are utilized to help determine the allocation of our future capital investments. The key elements of our E&P business strategy are:

Exploit and Develop Existing Asset Base. We seek to maximize the value of our existing asset base by developing and exploiting properties that have production and reserve growth potential while also controlling per unit production costs. We intend to add proved reserves and increase production through the use of advanced technologies, including detailed technical analysis of our properties, and by drilling infill locations and selectively recompleting existing wells. We also plan to drill step-out wells to expand known field limits.

Grow Through New Exploration and Development Activities. We actively seek to develop natural gas and oil plays as well as other new exploration projects with significant exploration and exploitation potential. New prospects are evaluated based on repeatability, multi-well

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potential and land availability as well as other criteria. Our Fayetteville Shale resource play is an outgrowth of our focus on new exploration and development projects.

Rationalize Our Property Portfolio and Acquire Selective Properties. We actively pursue opportunities to reduce production costs of our properties and improve overall return, including selling marginal properties from our E&P portfolio of assets and acquiring producing properties and leasehold acreage in the regions in which we operate. We also seek to acquire operational control of properties with significant unrealized exploration and exploitation potential.

Our Competitive Strengths

We believe that the following competitive strengths distinguish us from our competitors:

Our People. Our E&P operations are organized into asset management teams based on the geographic location of our assets. These teams are comprised of operational and technical professionals with knowledge and experience in the basins, including geoscientists averaging over 20 years of experience and possessing successful track records of finding natural gas and oil. We also have personnel dedicated to the research and identification of new conventional and unconventional plays (including coal bed methane, shale gas and basin-centered gas) in order to develop future drilling inventory.

High-Quality Asset Base. Our E&P producing properties are characterized by high-margin reserves with established production profiles and are approximately 92% natural gas. The average reserve life of our properties was approximately 11.9 years as of December 31, 2004. Our natural gas distribution assets provide stable earnings and cash flow and a premium market for approximately 10% of our total gas production.

Economies of Scale Driven by Geographic Concentration. In our key operating areas, our properties are concentrated in locations that enable us to establish economies of scale in both drilling and production operations. Our producing properties generate a significant amount of cash flow due to both locational advantages and very low production costs per unit of production.

Substantial and Balanced Inventory of Development and Exploration Prospects. We have a balanced portfolio of properties and projects that range from low risk development locations to higher risk, higher potential exploratory locations defined by, and supported with, 3-D seismic data. Our substantial inventory of drilling locations and degree of operating control provide us with flexibility in project selection and timing.

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THE OFFERING

Common stock offered by Southwestern Energy	7,300,000 shares
Common stock outstanding after this offering	80,258,575 shares
Use of proceeds	We intend to use a portion of the net proceeds from this offering to fund $60.7 million of capital expenditures under our 2005 capital program that are specifically contingent upon this offering and to repay upon maturity $125.0 million of our 6.70% senior notes due in December 2005. We will use the remaining net proceeds for general corporate purposes, which is expected to include funding our remaining 2005 and future capital expenditures relating to the acceleration of the development of our Fayetteville Shale resource play. Pending such use, we may invest the funds in short-term marketable securities and/or apply them to the reduction of indebtedness outstanding under our revolving credit facility. See Use of Proceeds.
Risk factors	For a discussion of factors you should consider before buying shares of our common stock, we refer you to Risk Factors.
New York Stock Exchange symbol	SWN

The number of shares of our common stock shown above to be outstanding after consummation of this offering is based on the number of shares outstanding as of September 7, 2005, and excludes (i) 3,664,401 shares of common stock issuable upon exercise of stock options outstanding as of September 7, 2005, (ii) 3,844,845 shares of common stock reserved for issuance under our stock incentive plans and (iii) 617,103 unvested restricted shares of common stock.

Unless we indicate otherwise, the share information in this prospectus supplement assumes that the underwriters option to cover over-allotments is not exercised. See Underwriting.

* * *

Our executive offices are located at 2350 North Sam Houston Parkway East, Suite 300, Houston, Texas 77032, and our telephone number is (281) 618-4700.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The summary historical data set forth below as of and for each of the three years ended December 31, 2004, 2003 and 2002 have been derived from our consolidated financial statements contained in our annual report on Form 10-K for the year ended December 31, 2004, which have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, and which are incorporated by reference into this prospectus supplement and the accompanying prospectus. The summary historical data set forth below as of and for the six months ended June 30, 2005 and 2004 have been derived from our unaudited consolidated financial statements contained in our quarterly report on Form 10-Q for the period ended June 30, 2005. All weighted average shares and per share numbers have been adjusted for the two-for-one stock split effected in June 2005. The table should be read in conjunction with our audited consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Form 10-K and our Form 10-Q, each of which are incorporated by reference into this prospectus supplement and the accompanying prospectus.

	For the Six Months Ended June 30,		For the Year Ended December 31,		
	2005	2004	2004	2003	2002
			(In Thousands)		
Statement of Operations:					
Operating revenues:					
Gas sales	$ 219,463	$ 174,857	$ 375,460	$ 256,467	$ 198,108
Gas marketing	54,750	24,860	65,127	43,313	41,709
Oil sales	13,539	8,342	19,461	14,180	14,340
Gas transportation and other	5,764	8,158	17,089	13,441	7,345
Total operating revenues	293,516	216,217	477,137	327,401	261,502
Production costs and expenses:					
Gas purchases utility	38,901	35,050	64,311	52,585	48,388
Gas purchases marketing	52,130	22,635	60,804	39,428	37,927
Operating expenses	24,346	20,210	42,157	37,377	38,154
General and administrative expenses	20,611	16,274	36,074	33,102	26,446
Depreciation, depletion and amortization	43,256	32,617	73,674	55,948	53,992
Taxes, other than income taxes	10,865	7,878	17,830	11,619	10,090
Total production costs and expenses	190,109	134,664	294,850	230,059	214,997
Operating income	103,407	81,553	182,287	97,342	46,505
Interest expense:					
Interest on long-term debt	10,164	8,797	18,335	17,722	21,664
Other interest charges	668	828	1,461	1,381	1,285
Interest capitalized	(1,639)	(1,293)	(2,804)	(1,792)	(1,483)

Total interest expense	9,193	8,332	16,992	17,311	21,466
Other income (expense)	199	(547)	(362)	797	(566)
Income before income taxes and minority interest	94,413	72,674	164,933	80,828	24,473
Minority interest in partnership	(408)	(830)	(1,579)	(2,180)	(1,454)
Income before income taxes	94,005	71,844	163,354	78,648	23,019
Provision for income taxes deferred	34,570	26,582	59,778	28,896	8,708
Income before accounting change	59,435	45,262	103,576	49,752	14,311
Cumulative effect of adoption of accounting principle				(855)	
Net income	$ 59,435	$ 45,262	$ 103,576	$ 48,897	$ 14,311

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	For the Six Months Ended June 30,		For the Year Ended December 31,		
	2005	2004	2004	2003	2002
Earnings per share:					
Basic	$ 0.82	$ 0.64	$ 1.45	$ 0.73	$ 0.29
Diluted	0.79	0.62	1.40	0.72	0.28
Weighted average common shares outstanding:					
Basic	72,363,971	71,220,980	71,451,202	66,792,104	50,453,160
Diluted	75,057,761	73,439,858	73,925,544	68,475,868	52,104,476

	As of June 30, 2005	As of December 31, 2004
	(In Thousands)	
Balance Sheet Data:		
Cash	$ 745	$ 1,235
Working capital	(54,125)	(2,715)
Total current assets	109,454	130,985
Long-term debt	328,100	325,000
Shareholders equity	487,934	447,677

	For the Six Months Ended June 30,		For the Year Ended December 31,		
	2005	2004	2004	2003	2002
	(In Thousands)				
Selected Cash Flow Data:					
Net cash provided by operating activities	$ 164,391	$ 120,473	$ 237,897	$ 109,099	$ 77,574
Net cash used in investing activities	(176,238)	(122,402)	(285,448)	(161,656)	(64,469)
Net cash provided by (used in) financing activities	11,357	1,738	47,509	52,144	(15,056)
Capital expenditures	176,981	124,234	291,101	168,172	92,062

	For the Six Months Ended June 30,		For the Year Ended December 31,		
	2005	2004	2004	2003	2002

	(In Thousands)
Segment Data:	
Operating income:	