
Section 1: 8-K (SWN FORM 8-K)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): December 3, 2018

SOUTHWESTERN ENERGY COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

001-08246
(Commission
File Number)

71-0205415
(IRS Employer
Identification No.)

1000 Energy Drive
Spring, Texas 77389
(Address of principal executive office) (Zip Code)

(832) 796-1000
(Registrants' telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Section 2 – Financial Information

Item 2.01 Completion of Acquisition or Disposition of Assets.

On December 3, 2018, Southwestern Energy Company (the “Company”) completed the previously announced disposition to Flywheel Energy Operating, LLC (the “Buyer”) of 100% of the equity in the Company’s subsidiaries that own and operate its Fayetteville Shale exploration and production and related midstream gathering assets, as contemplated by the Membership Interest Purchase Agreement dated as of August 30, 2018, which was filed as Exhibit 2.1 to the Current Report of the Company on Form 8-K filed with the Securities and Exchange Commission on September 4, 2018, as amended as described in Item 8.01 of this Current Report (as so amended, the “Agreement”). The consideration under the Agreement was \$1.865 billion, subject to customary adjustments mostly to take into account revenues and expenses that the Company has received for the period from the economic effective date of July 1, 2018, to the closing date, plus the assumption of various obligations. The above description of the disposition does not purport to be complete and is qualified in its entirety by reference to the full text of the Agreement, including as amended.

Section 5 – Corporate Governance and Management

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

John E. “Jack” Bergeron, Jr., the Company’s Senior Vice President, SWN Advance, will be retiring January 2, 2019. The functions reporting to Mr. Bergeron will be integrated into other existing parts of the Company’s organization. In connection with his retirement and separation, Mr. Bergeron will receive a cash payment of \$1,227,366, which includes amounts in lieu of certain unvested restricted stock and restricted stock units. He also will be granting a general release and waiver of claims arising out of his employment and retirement and be subject to continuing confidentiality, nondisparagement and nonsolicitation obligations. Mr. Bergeron’s long-term incentive awards will vest or be forfeited in accordance with the terms of the Company’s 2013 Incentive Plan, as amended, except that options may be exercised for their original terms.

Section 8 – Other Events

Item 8.01 Other Events.

On December 3, 2018, the Company entered into a Closing Agreement and First Amendment to Membership Interest Purchase Agreement (the “Amendment”) with the Buyer, a copy of which is filed as Exhibit 2.1 to this Current Report and is incorporated in this Current Report by this reference.

Section 9 – Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits.

(b) Pro forma financial information

Unaudited pro forma information of the Company to give effect to the Fayetteville Shale sale is attached as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated by reference herein.

- Unaudited pro forma condensed consolidated balance sheet as of September 30, 2018

 - Unaudited pro forma condensed consolidated statements of operation for the nine months ended September 30, 2018 and the year ended December 31, 2017
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(d) Exhibits.

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|---|
| 2.1* | <u>Closing Agreement and First Amendment to Membership Interest Purchase Agreement dated as of December 3, 2018, between Southwestern Energy Company and Flywheel Energy Operating, LLC</u> |
| 99.1 | <u>Unaudited pro forma condensed consolidated financial information</u> |

*The Company has omitted certain exhibits and schedules to the Amendment. The Company agrees to furnish supplementally a copy of any omitted schedule or exhibit upon request.

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 hereunto duly authorized.

SOUTHWESTERN ENERGY COMPANY

Dated: December 4, 2018 _____

By: /s/ JULIAN M. BOTT
Name: Julian M. Bott
Title: Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX

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|--------------------|---|
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Section 2: EX-2 (CLOSING AGREEMENT AND FIRST AMENDMENT TO MIPA)

CLOSING AGREEMENT AND FIRST AMENDMENT TO MEMBERSHIP INTEREST PURCHASE AGREEMENT

This Closing Agreement and First Amendment to Membership Interest Purchase Agreement (this "**Amendment**") is made and entered into this 3rd day of December, 2018, by and between SOUTHWESTERN ENERGY COMPANY, a Delaware corporation ("**Seller**"), and FLYWHEEL ENERGY OPERATING, LLC, a Delaware limited liability company ("**Buyer**"). Buyer and Seller are sometimes referred to herein individually as a "**Party**" and collectively as the "**Parties**". Capitalized terms used but not defined in this Amendment will have the meanings given to such terms in the MIPA (defined below).

RECITALS

WHEREAS, Buyer and Seller entered into that certain Membership Interest Purchase Agreement, dated as of August 30, 2018 (such agreement, as amended from time to time, the "**MIPA**" and such date, the "**Original Execution Date**"); and

WHEREAS, the Parties desire to amend the MIPA and to memorialize certain agreements of the Parties with respect to the transactions contemplated by the MIPA.

NOW, THEREFORE, for and in consideration of the mutual agreements herein contained, the benefits to be derived by each Party, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. Amendment to Section 2.3(a)(i) (Purchase Price Adjustments). Section 2.3 (a)(i) of the MIPA is amended by adding the following language to the end of such Section:

, excluding, however, bonus accruals for field employees

2. Amendment to Section 2.3(b)(vii) (Purchase Price Adjustments). Section 2.3 (b)(vii) of the MIPA is amended by replacing such Section in its entirety with the following language:

[intentionally omitted]

3. Amendment to Section 4.3(b) (Buyer's and Companies' Indemnity Obligation). Section 4.3(b) of the MIPA is amended by deleting the reference to "Schedule 9.11(b)" and replacing it with "Schedule 9.11 (FT Credit Support)".

4. Amendment to Section 7.13 (Bank Accounts). The last sentence of Section 7.13 of the MIPA is amended by replacing such sentence in its entirety with the following language:

Seller shall cause, as of the Closing Date, other than the Transferred Escrow Accounts, each bank account of the Companies to have a balance of zero.

5. Amendment to Section 9.11 (Firm Transportation Agreements). Section 9.11 of the MIPA is amended by replacing the language of such section in its entirety with the following language:

(a)(i) Buyer shall prepare and file with FERC (and Seller shall, and shall cause the Companies and their respective Affiliates to cooperate with Buyer in connection therewith) a joint petition for temporary waivers (the “**FERC Waivers**”) of all applicable capacity release regulations and related policies and requirements and of the related tariff requirements of the interstate pipelines providing transportation service pursuant to firm transportation agreements as may be reasonably necessary to facilitate the assignment or permanent release from Seller, the Companies and their Affiliates to Buyer or its designated Affiliate of the contracts set forth on Schedule 9.11(a) (or any renewals, extensions or replacements thereof) (collectively the “**Firm Transportation Agreements**”) on rates, terms and conditions identical to those currently in effect for Seller, the Companies or their Affiliates or their designees prior to the contemplated transfer, and (ii) at the Closing, (x) Seller, the Companies, or their Affiliate that is party to such Firm Transportation Agreement shall assign or permanently release to Flywheel Energy Marketing, LLC the interests in the Firm Transportation Agreements with Texas Gas Transmission, LLC effective as of March 1, 2019, pursuant to an assignment in the form attached as Annex A, and (y) Flywheel Energy Marketing, LLC and SWN Energy Services Company, LLC (“**SESC**”), the Affiliate of the Seller that is a party to the Firm Transportation Agreement with Fayetteville Express Pipeline LLC shall enter into an Asset Management Agreement in the form of Exhibit M with respect to that Firm Transportation Agreement (the “**Asset Management Agreement**”).

(b) In connection with the assignment or permanent release to Flywheel Energy Marketing, LLC of the interests in the Firm Transportation Agreements and with the Asset Management Agreement, Buyer, at Buyer’s sole cost and expense, (i) shall provide the credit support described on Schedule 9.11 (FT Credit Support) to be provided by Buyer and (ii) shall take any other action necessary under all applicable capacity release regulations and related policies and requirements and of the related tariff requirements of the interstate pipelines providing transportation service; *provided* that in no event shall Buyer or any of its Affiliates be required to agree to any adverse amendment or modification to any of the material terms of the Firm Transportation Agreements (*provided* that any amendments to fees or term shall be deemed to be material). Subject to applicable Laws, Buyer shall have the right to contact and have discussions with the applicable counterparties and beneficiaries of any bonds, letters of credit or guaranties to the extent reasonably necessary for Buyer to satisfy its obligations under this Section 9.11(b).

(c) Immediately following the Closing, Buyer shall cause the Upstream Company to execute and deliver to Seller transaction confirmations under the NAESB contracts set forth on Schedule 9.11(b) on terms and conditions set forth on Schedule 9.11(c), which transaction confirmations shall be in the form of Exhibit N.

6. Amendment to Section 9.12 (Resignations of Officers and Managers).
Section 9.12 of the MIPA is amended by replacing the language of such Section in its entirety with the following language:

Effective upon the Closing, Seller shall cause (a) all powers of attorney on behalf of any Company, except for the limited powers of attorneys, if any, expressly granted in the Joint

Defense Agreement, to be cancelled, and (b) all of the directors, managers and officers of each Company, to resign.

7. Amendment to Exhibit A-7 (Midstream Rights of Way). Exhibit A-7 of the Disclosure Letter is amended to remove and delete each of the Midstream Rights of Way set forth on Exhibit A-7 attached hereto.

8. Amendment to Exhibit A-8 (Vehicles). Exhibit A-8 of the Disclosure Letter is amended to remove and delete each of the Vehicles set forth on Exhibit A-8 attached hereto.

9. Amendment to Exhibit B-1 (Excluded Assets). Exhibit B-1 of the Disclosure Letter is amended by replacing such Exhibit in its entirety with Exhibit B-1 attached hereto.

10. Amendment to Exhibit F (Form of Transition Services Agreement). Exhibit F of the Disclosure Letter is amended by replacing such Exhibit in its entirety with Exhibit F attached hereto.

11. New Exhibit M to Disclosure Letter (Form of Asset Management Agreement). The Disclosure Letter is amended by adding a new Exhibit M thereto in the form of Exhibit M attached hereto.

12. New Exhibit N to Disclosure Letter (Form of NAESB). The Disclosure Letter is amended by adding a new Exhibit N thereto in the form of Exhibit N attached hereto.

13. Schedule Updates. The Parties hereby acknowledge that (i) Seller has delivered to Buyer the following Schedule Updates at or prior to Closing in accordance with and subject to the terms of Section 9.4 of the MIPA, (ii) such Schedule Updates do not constitute an amendment of the MIPA or the Disclosure Schedules and (iii) such Schedule Updates shall not be deemed to cure any inaccuracy of any representation or warranty made in the MIPA:

(a) Schedule 7.5 (Part A) of the Disclosure Letter is supplemented by Seller to more accurately describe the lawsuit described on Schedule 7.5 (Part A) attached hereto by including all of the updated information set forth on Schedule 7.5 (Part A) attached hereto with respect to such lawsuit.

(b) Schedule 7.10 of the Disclosure Letter is supplemented by Seller to add each of the Consents set forth on Schedule 7.10 attached hereto.

(c) Schedule 7.19(b) of the Disclosure Letter is supplemented by Seller to add each of the payout balances set forth on Schedule 7.19(b) attached hereto.

(d) Schedule 7.24 of the Disclosure Letter is supplemented by Seller to remove and delete the real property set forth on Schedule 7.24 attached hereto.

14. Amendment to Schedule 9.6 (Bonds). Schedule 9.6 of the Disclosure Letter is supplemented by Seller to add each of the guarantees set forth on Schedule 9.6 attached hereto.

15. Amendment to Schedule 9.11 (FT Credit Support). Schedule 9.11 (FT Credit Support) of the Disclosure Letter is amended by replacing such Schedule in its entirety with Schedule 9.11 (FT Credit Support) attached hereto.

16. Amendment to Schedule 9.23 (Hedging Matters). Schedule 9.23 Part II of the Disclosure Letter is amended by replacing such Schedule in its entirety with Schedule 9.23 Part II attached hereto. Schedule 9.23 Part III of the Disclosure Letter is amended by replacing such Schedule in its entirety with Schedule 9.23 Part III attached hereto.

17. Agreement in connection with Section 9.6 (Bonds). Notwithstanding anything to the contrary contained in Section 9.6 of the MIPA, instead of delivery by Buyer on the Closing Date of evidence of the posting of replacements for all bonds, letters of credit and guaranties set forth on Schedule 9.6 of the MIPA as described in Section 9.6 of the MIPA, the Parties acknowledge and agree that: (a) no such evidence of the posting of replacements shall be delivered by Buyer at Closing, (b) in lieu thereof, Buyer shall deliver sufficient evidence that the posting of replacements for all bonds, letters of credit and guaranties set forth on Schedule 9.6 of the MIPA shall occur within a reasonable period of time after Closing, and (c) upon Buyer posting any such replacements, Buyer shall deliver evidence that the posting thereof has occurred.

18. Amendment to Section 9.16(k) (Bonus for Year of Hire Date). Section 9.16 (k) of the MIPA is amended by replacing such Section in its entirety with the following language.

(i) Without limiting any other requirement set forth in this *Section 9.16*, Seller or one of its Affiliates shall pay to each Transferred Employee on or before the 30th day following that Transferred Employee's Hire Date, the target annual cash bonus opportunity for such Transferred Employee in effect with respect to any period up to that Transferred Employee's Hire Date for which a bonus has not yet been paid under the applicable annual cash bonus program maintained by Seller or one of its Affiliates, but prorated based on number of days in that period in which the Transferred Employee was employed by Seller or its Affiliates before the applicable Hire Date of such Transferred Employee (the "**Seller Bonuses**"). Within five Business Days after Seller pays such Seller Bonuses and provides Buyer written notice thereof, including the amount of such payments, Buyer or any of its Affiliates shall reimburse Seller for the portion of such payments made to the field employees who are Transferred Employees, a fraction, the numerator of which is the number of days from the Effective Time to such employee's applicable Hire Date, and the denominator of which is the number of days in the period for which the bonus was paid and the Transferred Employee was employed by Seller or its Affiliates; provided that such Seller Bonuses are determined in a manner consistent with the annual bonus program maintained by Seller or its Affiliates for such Transferred Employee immediately prior to such Transferred Employee's Hire Date.

(ii) Buyer or its Affiliates shall pay to each Transferred Employee the target annual cash bonus opportunity for such Transferred Employee in effect with respect to the bonus year in which such Transferred Employee's Hire Date occurs under the applicable annual cash bonus program maintained by Seller or one of its Affiliates, but only to extent attributable to the portion of such bonus year from the applicable Hire Date of such Transferred Employee to the end of such bonus year (the "**Buyer Bonuses**"). Buyer or its Affiliate shall

pay the Buyer Bonuses to the Transferred Employees no later than the time Seller or its Affiliate would have made such annual bonus payments to the Transferred Employees had such employees remained employed by Seller or its Affiliates but in no event later than March 15th of the calendar year following the calendar year in which the applicable Transferred Employee's Hire Date occurs.

19. Agreement regarding Schedule 9.23 (Hedging Matters). Notwithstanding anything to the contrary contained in Section 2.3(a)(v) of the MIPA or Section (i)(i) of Schedule 9.23 of the MIPA, the Purchase Price shall not be increased at Closing by the amounts contemplated in such Sections. Rather, on or before December 5, 2018, Buyer shall pay to Seller, by wire transfer of immediately available funds, an amount equal to \$28,753,042.50 in satisfaction of such adjustments to the Purchase Price. Furthermore, the Parties agree that the provisions of Annex B attached hereto shall apply with respect to novations of Hedge Contracts.

20. Agreement regarding Rig Stack. The Parties agree that the provisions of Annex C attached hereto shall apply with respect to rig stacks.

21. Certain Provisions. The Parties acknowledge and agree that Article 13 of the MIPA is incorporated herein by reference *mutatis mutandis*.

22. Ratification; Reaffirmation and No Release. Except as specifically provided in this Amendment, the MIPA shall remain in full force and effect pursuant to the terms and conditions thereof. The Parties hereby ratify and confirm the terms and provisions of the MIPA, to the extent modified hereby, for all purposes. All references to the MIPA shall hereafter be deemed to refer to the MIPA as amended hereby. The Parties hereby covenant and agree that the MIPA, as amended by this Amendment, the Exhibits and Schedules to the MIPA and the other documents contemplated under the MIPA set forth the entire agreement and understanding of the Parties in respect of the transactions contemplated hereby and thereby and supersede all prior agreements, prior arrangements and prior understandings relating to the subject matter hereof and thereof. Except as expressly provided herein or in the MIPA, this Amendment shall not release, waive or excuse, and each Party shall remain responsible and liable for, such Party's respective rights and obligations (or breach thereof) under the MIPA, as amended by this Amendment, arising prior to, on or after the date hereof.

[Signature pages follow.]

IN WITNESS WHEREOF, the Parties have executed and delivered this Amendment as of the date first set forth above.

SELLER:

SOUTHWESTERN ENERGY COMPANY

By: /s/ David Cecil
Name: David Cecil
Title: Executive Vice President – Corporate Development

BUYER:

FLYWHEEL ENERGY OPERATING, LLC

By: /s/ Jeremy R. Fitzpatrick
Name: Jeremy R. Fitzpatrick
Title: Vice President - Land, Legal & BD

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Section 3: EX-99 (SWN PRO FORMA FINANCIAL STATEMENTS)

Exhibit 99.1

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following unaudited pro forma condensed consolidated financial statements of Southwestern Energy Company (including its subsidiaries, collectively “Southwestern” or the “Company”) are presented to illustrate the effect of the sale of 100% of the equity in SWN Production (Arkansas), LLC and DeSoto Gathering Company, LLC, the Company’s subsidiaries that owned and operated its Fayetteville Shale exploration and production (“E&P”) and related midstream gathering assets located in Arkansas, (the “Fayetteville Shale sale”) on its historical financial position and operating results. On December 3, 2018, the Company closed on the Fayetteville Shale sale and received approximately \$1,650 million, which included preliminary purchase price adjustments of \$215 million related to the net cash flows from the effective date to the closing date and certain other working capital adjustments. Consequently, the Company will repurchase \$900 million principal amount of certain of its outstanding senior notes, under existing tender offers, on December 4, 2018, with a portion of the Fayetteville Shale sale proceeds.

The Fayetteville Shale sale constituted a significant disposition for purposes of Item 2.01 of Form 8-K. As a result, the Company prepared the accompanying unaudited pro forma condensed consolidated financial statements in accordance with Article 11 of Regulation S-X. This divestiture does not qualify as a discontinued operation as it does not represent a strategic shift that will have a major effect on Southwestern’s operations or financial results.

The accompanying unaudited pro forma condensed consolidated balance sheet as of September 30, 2018 has been prepared to give effect to the divestiture as if it had occurred on September 30, 2018. The unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2017 and for the nine months ended September 30, 2018 have been prepared to give effect to the divestiture as if it had occurred on January 1, 2017.

The unaudited pro forma condensed consolidated balance sheet and statements of operations included herein are for information purposes only and are not necessarily indicative of the results that might have occurred had the divestiture taken place on the respective dates assumed. Actual results may differ significantly from those reflected in the unaudited condensed consolidated pro forma financial statements for various reasons, including but not limited to, the differences between the assumptions used to prepare the unaudited pro forma condensed consolidated financial statements and actual results. The pro forma adjustments in the unaudited pro forma condensed consolidated balance sheet and the statements of operations included herein include the use of estimates and assumptions as described in the accompanying notes. The pro forma adjustments are based on information available to the Company at the time these unaudited pro forma condensed consolidated financial statements were prepared. The Company believes its current estimates provide a reasonable basis of presenting the significant effects of the transaction. However, the estimates and assumptions are subject to change as additional information becomes available. The unaudited pro forma condensed consolidated financial statements only include adjustments related to the Fayetteville Shale sale and the repurchase of certain of the Company’s outstanding senior notes with a portion of the proceeds received.

This pro forma information is based on the historical consolidated financial statements of Southwestern and should be read in conjunction with the consolidated financial statements and the accompanying footnotes included in the Company’s Quarterly Report on Form 10-Q for the nine months ended September 30, 2018 and its Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities Exchange Commission on October 25, 2018 and March 1, 2018, respectively.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)
As of September 30, 2018

| <i>(in millions)</i> | Historical | Pro Forma Fayetteville Shale Sale Adjustments | Pro Forma Senior Note Repurchase Adjustments | Pro Forma Combined |
|---|-------------------|--|---|-------------------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 9 | \$ 1,650 ^(a) | \$ (914) ^(c) | \$ 745 |
| Accounts receivable, net | 397 | - | - | 397 |
| Derivative assets | 104 | (22) ^(b) | - | 82 |
| Other current assets | 41 | - | - | 41 |
| Current assets held for sale | 64 | (64) ^(b) | - | - |
| Total current assets | 615 | 1,564 | (914) | 1,265 |
| Natural gas and oil properties, using the full cost method, including \$1,767 million as of September 30, 2018 excluded from amortization | 24,880 | (899) ^(b) | - | 23,981 |
| Gathering systems | 38 | - | - | 38 |
| Other | 479 | - | - | 479 |
| Less: Accumulated depreciation, depletion and amortization | (19,928) | - | - | (19,928) |
| Total property and equipment, net | 5,469 | (899) | - | 4,570 |
| Other long-term assets | 194 | - | - | 194 |
| Long-term assets held for sale | 780 | (780) ^(b) | - | - |
| TOTAL ASSETS | \$ 7,058 | \$ (115) | \$ (914) | \$ 6,029 |
| LIABILITIES AND EQUITY | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 563 | \$ - | \$ - | \$ 563 |
| Taxes payable | 32 | 6 ^(b) | - | 38 |
| Interest payable | 60 | - | (9) ^(c) | 51 |
| Derivative liabilities | 111 | - | - | 111 |
| Other current liabilities | 10 | - | - | 10 |
| Current liabilities held for sale | 116 | (116) ^(b) | - | - |
| Total current liabilities | 892 | (110) | (9) | 773 |
| Long-term debt | 3,572 | - | (895) ^(c) | 2,677 |
| Pension and other postretirement liabilities | 50 | - | - | 50 |
| Other long-term liabilities | 162 | 94 ^(b) | - | 256 |
| Long-term liabilities held for sale | 177 | (177) ^(b) | - | - |
| Total long-term liabilities | 3,961 | (83) | (895) | 2,983 |
| Commitments and contingencies | | | | |
| Equity: | | | | |
| Common stock, \$0.01 par value; 1,250,000,000 shares authorized; issued 586,195,162 shares as of September 30, 2018 | 6 | - | - | 6 |
| Additional paid-in capital | 4,714 | - | - | 4,714 |
| Accumulated deficit | (2,449) | 78 ^(b) | (10) ^(c) | (2,381) |
| Accumulated other comprehensive loss | (40) | - | - | (40) |
| Common stock in treasury, 4,860,280 shares as of September 30, 2018 | (26) | - | - | (26) |
| Total equity | 2,205 | 78 | (10) | 2,273 |
| TOTAL LIABILITIES AND EQUITY | \$ 7,058 | \$ (115) | \$ (914) | \$ 6,029 |

The accompanying notes are an integral part of these unaudited
pro forma condensed consolidated financial statements.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)
For the Nine Months Ended September 30, 2018

| <i>(in millions, except share and per share amounts)</i> | Historical | Pro Forma Fayetteville Shale Sale Adjustments | Pro Forma Senior Note Repurchase Adjustments | Pro Forma Combined |
|--|--------------------|--|---|-------------------------------|
| Operating Revenues: | | | | |
| Gas sales | \$ 1,412 | \$ (442) ^(d) | \$ – | \$ 970 |
| Oil sales | 141 | – | – | 141 |
| NGL sales | 252 | – | – | 252 |
| Marketing | 805 | (187) ^(d) | – | 618 |
| Gas gathering | 73 | (73) ^(d) | – | – |
| Other | 4 | – | – | 4 |
| | <u>2,687</u> | <u>(702)</u> | <u>–</u> | <u>1,985</u> |
| Operating Costs and Expenses: | | | | |
| Marketing purchases | 808 | (186) ^(d) | – | 622 |
| Operating expenses | 588 | (143) ^(d) | – | 445 |
| General and administrative expenses | 165 | (24) ^(d) | – | 141 |
| Restructuring charges | 20 | – | – | 20 |
| Depreciation, depletion and amortization | 436 | (122) ^(d) | – | 314 |
| Impairments | 161 | – | – | 161 |
| Taxes, other than income taxes | 64 | (25) ^(d) | – | 39 |
| | <u>2,242</u> | <u>(500)</u> | <u>–</u> | <u>1,742</u> |
| Operating Income | 445 | (202) | – | 243 |
| Interest expense, net | 100 | – | (37) ^(e) | 63 |
| Loss on derivatives | (108) | 52 ^(d) | – | (56) |
| Loss on early extinguishment of debt | (8) | – | – | (8) |
| Other income, net | 1 | – | – | 1 |
| Income before income taxes | 230 | (150) | 37 | 117 |
| Income tax expense | – | – | – | – |
| Net Income | \$ 230 | \$ (150) | \$ 37 | \$ 117 |
| Mandatory convertible preferred stock dividend | – | – | – | – |
| Participating securities – mandatory convertible preferred stock | 1 | – | – | 1 |
| Net Income Attributable to Common Stock | \$ 229 | \$ (150) | \$ 37 | \$ 116 |
| Earnings per Common Share | | | | |
| Basic | <u>\$ 0.40</u> | | | <u>\$ 0.20</u> |
| Diluted | <u>\$ 0.39</u> | | | <u>\$ 0.20</u> |
| Weighted Average Common Shares Outstanding | | | | |
| Basic | <u>577,912,421</u> | | | <u>577,912,421</u> |
| Diluted | <u>579,828,858</u> | | | <u>579,828,858</u> |

The accompanying notes are an integral part of these unaudited pro forma condensed consolidated financial statements.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)
For the Year Ended December 31, 2017

| <i>(in millions, except share and per share amounts)</i> | Historical | Pro Forma Fayetteville Shale Sale Adjustments | Pro Forma Senior Note Repurchase Adjustments | Pro Forma Combined |
|--|-------------------|--|---|-------------------------------|
| Operating Revenues: | | | | |
| Gas sales | \$ 1,793 | \$ (760) ^(d) | \$ – | \$ 1,033 |
| Oil sales | 102 | – | – | 102 |
| NGL sales | 206 | – | – | 206 |
| Marketing | 972 | (320) ^(d) | – | 652 |
| Gas gathering | 126 | (126) ^(d) | – | – |
| Other | 4 | – | – | 4 |
| | <u>3,203</u> | <u>(1,206)</u> | <u>–</u> | <u>1,997</u> |
| Operating Costs and Expenses: | | | | |
| Marketing purchases | 976 | (319) ^(d) | – | 657 |
| Operating expenses | 671 | (198) ^(d) | – | 473 |
| General and administrative expenses | 233 | (25) ^(d) | – | 208 |
| Depreciation, depletion and amortization | 504 | (188) ^(d) | – | 316 |
| Gain on sale of assets, net | (6) | – | – | (6) |
| Taxes, other than income taxes | 94 | (39) ^(d) | – | 55 |
| | <u>2,472</u> | <u>(769)</u> | <u>–</u> | <u>1,703</u> |
| Operating Income | 731 | (437) | – | 294 |
| Interest expense, net | 135 | – | (44) ^(e) | 91 |
| Gain on derivatives | 422 | (148) ^(d) | – | 274 |
| Loss on early extinguishment of debt | (70) | – | – | (70) |
| Other income, net | 5 | (1) ^(d) | – | 4 |
| Income before income taxes | 953 | (586) | 44 | 411 |
| Income tax benefit | (93) | – | – | (93) |
| Net Income | \$ 1,046 | \$ (586) | \$ 44 | \$ 504 |
| Mandatory convertible preferred stock dividend | 108 | – | – | 108 |
| Participating securities – mandatory convertible preferred stock | 123 | (78) ^(d) | 6 ^(e) | 51 |
| Net Income Attributable to Common Stock | \$ 815 | \$ (508) | \$ 38 | \$ 345 |
| Earnings per Common Share | | | | |
| Basic | \$ 1.64 | | | \$ 0.69 |
| Diluted | \$ 1.63 | | | \$ 0.69 |
| Weighted Average Common Shares Outstanding | | | | |
| Basic | 498,264,321 | | | 498,264,321 |
| Diluted | 500,804,297 | | | 500,804,297 |

The accompanying notes are an integral part of these unaudited pro forma condensed consolidated financial statements.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) BASIS OF PRESENTATION

The unaudited pro forma condensed consolidated financial statements give effect to the pro forma adjustments necessary to reflect the Fayetteville Shale sale as if the transaction had occurred on September 30, 2018 for the unaudited pro forma condensed consolidated balance sheet and as of January 1, 2017 for the unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2017 and the nine months ended September 30, 2018. The unaudited pro forma adjustments related to the Fayetteville Shale sale are based on available information and assumptions that management believes are (1) directly attributable to the transaction; (2) factually supportable and (3) with respect to the unaudited condensed consolidated statements of operations, expected to have a continuing impact on consolidated operating results.

(2) PRO FORMA ADJUSTMENTS

The unaudited pro forma condensed consolidated financial statements reflect the following adjustments:

Balance Sheet

“Historical” – represents the historical consolidated balance sheet of Southwestern Energy Company as of September 30, 2018.

- (a) To adjust for the proceeds and other estimated closing adjustments associated with the divestiture. The following table reflects the estimated cash proceeds:

(in millions)

| | |
|--|-----------------|
| Gross proceeds | \$ 1,865 |
| Less: Estimated closing and post-closing adjustments | 215 |
| Estimated net cash proceeds | <u>\$ 1,650</u> |

- (b) To remove the Company’s E&P and related midstream gathering assets associated with the Fayetteville Shale sale pursuant to the Membership Interest Purchase Agreement dated August 30, 2018, as amended. The following is a summarization of the application of net proceeds and estimated gain on the divestiture:

(in millions)

| | |
|--|--------------|
| Estimated net cash proceeds | \$ 1,650 |
| Current assets held for sale | (64) |
| Natural gas and oil properties, using the full cost method | (899) |
| Long-term assets held for sale | (780) |
| Current liabilities held for sale | 116 |
| Long-term liabilities held for sale | 177 |
| Other long-term liabilities ⁽¹⁾ | (94) |
| Derivative assets ⁽²⁾ | (22) |
| Estimated gain on disposition of assets | <u>84</u> |
| Income tax expense ⁽³⁾ | (6) |
| Estimated net gain on disposition of assets | <u>\$ 78</u> |

- (1) The Company is obligated to pay a portion of certain future contractual commitments related to unused firm transportation through 2020 per the amended Membership Interest Purchase Agreement.
- (2) Represents premiums on certain fixed price swaps which were novated to the buyer per the amended Membership Interest Purchase Agreement.
- (3) Current income tax expense of approximately \$6 million relates to the Fayetteville Shale sale. Deferred income tax expense was offset by the Company’s recognition of a valuation allowance.
-

- (c) To adjust for the repurchase of \$900 million principal amount of certain of the Company's outstanding senior notes.

(in millions)

| | | |
|---|----|------------|
| Cash used in debt repurchase | \$ | 914 |
| Less: Interest payable | | 9 |
| Less: Tender premiums and estimated bank and legal fees | | 5 |
| Principal amount of senior notes repurchased | | 900 |
| Less: Unamortized debt costs | | 5 |
| Reduction in long-term debt | \$ | <u>895</u> |
| | | |
| Tender premiums and estimated bank and legal fees | \$ | 5 |
| Unamortized debt costs | | 5 |
| Loss on early extinguishment of debt | \$ | <u>10</u> |

Statements of Operations

"Historical" – represents the historical consolidated statements of operations of Southwestern Energy Company for the nine months ended September 30, 2018 and the year ended December 31, 2017.

- (d) Adjustments are to eliminate revenues and costs of the Company's E&P and related midstream gathering operations associated with the Fayetteville Shale sale from the Company's consolidated operations. This includes the impact of marketing the production from the Fayetteville Shale by the Company's marketing subsidiary as well as the impact of certain derivative positions included in the Fayetteville Shale sale agreement. Any deferred income tax effects for the nine months ended September 30, 2018 and year ended December 31, 2017, were offset by a change in our valuation allowance.
- (e) Interest expense is adjusted to show the impact of the planned repurchase of \$900 million of certain of the Company's outstanding senior notes on January 1, 2017. Any deferred income tax effects for the nine months ended September 30, 2018 and year ended December 31, 2017, were offset by a change in our valuation allowance.

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