

SOUTHWESTERN ENERGY CO
Form PRE 14A
March 07, 2005
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SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934
(Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input type="checkbox"/> Definitive Proxy Statement | |
| <input type="checkbox"/> Definitive Additional Materials | |
| <input type="checkbox"/> Soliciting Material Pursuant to §240.14a-12 | |

Southwestern Energy Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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Southwestern Energy Company

2350 N. Sam Houston Parkway East, Suite 300

Houston, Texas 77032

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

ON MAY 11, 2005

The Annual Meeting of Shareholders of Southwestern Energy Company (the Company) will be held at the Wyndham Greenspoint Hotel, 12400 Greenspoint Drive, Houston, Texas, on Wednesday, the 11th day of May, 2005, at 11:00 a.m., Central Daylight Time, for the following purposes:

- (1) To elect seven (7) directors to serve until the 2006 Annual Meeting of Shareholders or until their respective successors are duly elected and qualified;
- (2) To ratify the appointment of PricewaterhouseCoopers LLP (PwC) to serve as the Company's independent registered public accounting firm for 2005;
- (3) To consider and take action upon a proposal to amend the Company's Amended and Restated Articles of Incorporation (the Articles of Incorporation) to increase the number of authorized shares of common stock to 250,000,000 shares;
- (4) To consider and take action upon a proposal to increase the Company's authorized bonded indebtedness (within the meaning of Article 12, Section 8 of the Constitution of the State of Arkansas) by an additional \$200 million, in the aggregate, upon such terms, provisions, and conditions as the Board of Directors shall approve; and
- (5) To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The Board of Directors has fixed the close of business on March 3, 2005, as the record date for the determination of shareholders entitled to notice of and to vote at the meeting.

The Company's 2004 Annual Report, which is not part of the proxy soliciting material, is enclosed.

You are invited to attend the meeting. If you cannot attend, it is important that your shares be represented and voted at the meeting. You can vote your shares by completing and returning the proxy card or voting instruction card. As an alternative, you can also vote your shares by telephone or over the Internet.

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You may revoke a proxy at any time prior to its exercise by giving written notice to that effect to the Secretary of Southwestern Energy Company or by submission of a later-dated proxy or subsequent Internet or telephonic proxy. If you attend the meeting, you may revoke any proxy previously granted and vote in person.

By Order of the Board of Directors

MARK K. BOLING

Executive Vice President,

General Counsel & Secretary

March 28, 2005

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Southwestern Energy Company

PROXY STATEMENT

PROXY QUESTIONS

WHO IS ENTITLED TO VOTE AT THE ANNUAL MEETING?

Shareholders who own shares of common stock as of March 3, 2005 may vote at the meeting. There were 36,456,066 shares of common stock outstanding on that date. Each share has one vote except with respect to the election of directors. Because you may cumulate your votes in the election of directors, you are entitled to as many votes as equal the number of shares held by you at the close of business on the record date, multiplied by the number of directors elected.

WHEN WERE THE ENCLOSED SOLICITATION MATERIALS FIRST GIVEN TO SHAREHOLDERS?

This Proxy Statement, and accompanying proxy are first being sent, or given, to shareholders on or about Monday, March 28, 2005.

WHAT AM I VOTING ON, AND WHAT ARE THE BOARD'S RECOMMENDATIONS?

You are voting on the following:

the election of seven (7) directors;

the ratification of PwC as the Company's independent registered public accounting firm for 2005;

the approval of an amendment to the Company's Articles of Incorporation to increase the number of authorized shares of common stock; and

the approval of an increase in the Company's authorized bonded indebtedness.

The Board recommends a vote **FOR** the election of seven directors, **FOR** the ratification of PwC as the Company's independent registered public accounting firm for 2005, **FOR** the authorization of an increase in the Company's authorized shares of common stock, and **FOR** the authorization of an increase in the Company's bonded indebtedness.

WHAT CONSTITUTES A QUORUM OF SHAREHOLDERS?

We must have a quorum to conduct the meeting. A quorum is the presence at the Annual Meeting in person or by proxy of shareholders entitled to cast a majority of all the votes entitled to be cast as of the record date. Since there were 36,456,066 shares of common stock outstanding on March 3, 2005, the record date, the quorum for the Annual Meeting requires the presence at the meeting in person or by proxy of shareholders entitled to vote at least 18,228,034 shares. Broker non-votes, abstentions and withhold-authority votes COUNT for purposes of determining a quorum.

HOW MANY VOTES DOES IT TAKE TO ELECT DIRECTORS?

Directors are elected by a plurality of all the votes cast. Because seven directors are being elected, this means that the seven nominees who receive the highest number of votes will be elected. You may only exercise your cumulative voting rights by submission of a written proxy, voting instruction card, or voting in person at the Annual Meeting. The cumulative voting feature is not available for voting by telephone or the Internet. Withheld votes do not affect the voting calculation.

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HOW MANY VOTES DOES IT TAKE TO RATIFY THE APPOINTMENT OF PwC TO SERVE AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2005?

The proposal to ratify the appointment of PwC to serve as the Company's independent registered public accounting firm for 2005 will be approved if a majority of the number of shares represented in person or by proxy vote in favor of its adoption. Abstentions are counted as shares voting on the proposal, thus having the effect as a vote against the proposal. Broker non-votes are not counted as shares voting on this proposal.

HOW MANY VOTES DOES IT TAKE TO APPROVE THE AMENDMENT TO THE COMPANY'S ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF THE COMPANY'S COMMON STOCK AND APPROVE THE INCREASE IN THE COMPANY'S AUTHORIZED BONDED INDEBTEDNESS ?

The proposals to approve (1) an amendment to the Company's Articles of Incorporation to increase the Company's number of authorized shares of common stock to 250,000,000 and (2) an increase in the Company's authorized bonded indebtedness by an additional \$200 million in the aggregate will each be approved if more than 50% of the total number of outstanding shares vote in favor of each such proposal. Abstentions are counted as shares voting against the proposal. Broker non-votes are not counted as shares voting on this proposal.

HOW DO I VOTE?

You may vote your shares in person at the Annual Meeting or by proxy. Since many of our shareholders are unable to attend the meeting in person, we send proxy cards and offer electronic and telephone voting to all of our shareholders to enable them to direct the voting of their shares.

IF MY SHARES ARE HELD IN STREET NAME BY MY BROKER, WILL MY BROKER VOTE FOR ME?

If your shares are held by your broker in street name and you do not vote your shares by following the instructions provided by your broker, your broker can vote your shares in the election of directors and the ratification of the appointment of PwC as the Company's independent registered public accounting firm for 2005, but your broker may not vote your shares for or against the other proposals set forth above. If you do not provide instructions to your broker on how to vote your shares, and your broker is not permitted to vote on the proposal without instructions from you, then your shares will be counted as broker non-votes for those specific proposals.

WHAT IS A PROXY?

A proxy is a person you appoint to vote on your behalf. When you vote, you will be designating Kenneth R. Mourton and Charles E. Scharlau as your proxies. We solicit proxies so that all common shares may be voted at the Annual Meeting. You must complete and return the enclosed proxy card or vote by phone or Internet to have your shares voted by proxy.

HOW WILL MY PROXY VOTE MY SHARES?

Your proxies will vote according to your instructions. If you complete and return your proxy card but do not indicate your vote on the matters, your proxies will vote **FOR** the seven directors and **FOR** each additional proposal set out above. Also your proxy card or vote by phone or Internet will give your proxies authority to vote, using their best judgment, on any other business that properly comes before the meeting.

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HOW DO I VOTE USING MY PROXY CARD?

There are three steps:

Step 1 a. Proposal No. 1

The names of seven directors to serve for the next year are listed on your proxy card. To vote for all seven directors, you check the box marked **FOR ALL NOMINEES**. To withhold your vote from all seven directors, (not vote for or against the directors) mark the box **WITHHELD FROM ALL NOMINEES**.

To vote for some of the directors and not others, write in the name(s) of the director(s) you wish to withhold your vote from on the line provided. To exercise cumulative voting (the number of shares owned multiplied by seven, the number of directors to be elected) write in how many votes you wish to cast for each director on the line provided. Votes may be cast for a single nominee or distributed among any number of nominees. Cumulative voting rights can be exercised by submission of a written proxy, a voting instruction card, or in person at the Annual Meeting.

b. Proposal No. 2

The proposal to ratify PricewaterhouseCoopers as the independent registered public accounting firm for the Company during 2005.

To vote for Proposal No. 2, you check the box marked **FOR**. If you are opposed to the proposal, check the box, **AGAINST**. If you are unsure how to vote, mark the box, **ABSTAIN**.

c. Proposal No. 3

The proposal to amend the Company's Articles of Incorporation to increase the number of authorized shares of common stock to 250,000,000 shares is listed on your proxy card.

To vote for Proposal No. 3, you check the box marked **FOR**. If you are opposed to the proposal, check the box, **AGAINST**. If you are unsure how to vote, mark the box, **ABSTAIN**.

d. Proposal No. 4

The proposal to increase the Company's authorized bonded indebtedness by an additional \$200 million in the aggregate is listed on your proxy card.

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To vote for Proposal No. 4, you check the box marked **FOR**. If you are opposed to the proposal, check the box, **AGAINST**. If you are unsure how to vote, mark the box, **ABSTAIN**.

Step 2. Sign and date your proxy card. **IF YOU DO NOT SIGN AND DATE YOUR PROXY CARD, YOUR VOTES CANNOT BE COUNTED. EACH PROPERLY EXECUTED PROXY WILL BE VOTED IN THE MANNER DIRECTED. IF NO DIRECTION IS MADE, EACH SUCH PROXY WILL BE VOTED AS **FOR** ALL PROPOSALS SET OUT ABOVE.**

Step 3. Mail your proxy card in the pre-addressed, postage-paid envelope.

HOW DO I VOTE BY TELEPHONE?

Record holders may submit proxies by following the **Vote-by-Telephone** instructions on their proxy cards. Shareholders who hold shares beneficially in **street name** may vote by telephone by calling the number specified on the voting instruction card provided by their brokers, trustee or nominees. Please check the voting instruction card for telephone voting availability. Note that if you wish to exercise cumulative voting, you must submit a written proxy, a voting instruction card, or vote in person at the Annual Meeting.

HOW DO I VOTE ON THE INTERNET?

Record holders with Internet access may submit proxies by following the **Vote-by-Internet** instructions on their proxy cards. Shareholders who hold shares beneficially in **street name** may vote by accessing the

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website specified on the voting instruction cards provided by their brokers, trustee or nominees. Please check the voting instruction card for Internet voting availability. Note that if you wish to exercise cumulative voting, you must submit a written proxy, a voting instruction card, or vote in person at the Annual Meeting.

CAN I VOTE BY PROXY EVEN IF I PLAN TO ATTEND THE ANNUAL MEETING?

Yes. If you vote by proxy, you do not need to fill out a ballot at the Annual Meeting unless you want to change your vote.

WHO IS SOLICITING MY PROXY, HOW IS IT BEING SOLICITED, AND WHO PAYS THE COSTS?

Southwestern Energy Company, on behalf of the Board of Directors, through its officers and employees, is soliciting proxies primarily by mail. However, proxies may also be solicited in person, by telephone or facsimile. Morrow & Co., Inc., a proxy solicitation firm, will be assisting us for a fee of approximately \$7,500 plus out-of-pocket expenses. Southwestern Energy Company pays the cost of soliciting proxies and reimburses brokers and others for forwarding proxy materials to you.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

At the meeting, seven (7) directors are to be elected to serve for the ensuing year or until their respective successors are duly elected and qualified. The shares represented by the enclosed proxy will be voted as instructed by the shareholders for the election of the nominees named below. If no direction is made, the proxy will be voted FOR the election of all of the nominees named below. If any nominee becomes unavailable for any reason or if a vacancy should occur before the election, the shares represented by the enclosed proxy may be voted for such other person as the Board of Directors may recommend. The Company has no knowledge that any nominee will be unavailable for election. Directors are elected by plurality vote.

The Board of Directors, upon the recommendation of the Nominating and Governance Committee, has proposed the nominees set forth below for election as directors. All nominees for director are presently directors of the Company. Certain information concerning the nominees is set forth below.

Nominees for Election

LEWIS E. EPLEY, JR. Mr. Epley is an Attorney at Law and a private investor. He is a member of the Arkansas Bar Association and served as President of the Carroll County Bar Association in Arkansas and Special Associate Justice of the Supreme Court of Arkansas. He has served as a director of the Bank of Eureka Springs since 1964, and has been the Vice Chairman of its Board of Directors since 1993. He is a former

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Chairman and member of the Board of Trustees of the University of Arkansas and a former director and President of the Northwest Arkansas Radiation Therapy Institute (NARTI). He is currently a director and Chairman of the University of Arkansas Foundation, Inc.; and a director of the University of Arkansas Alumni Association. He also formerly served as a member of the NARTI Foundation Board. Mr. Epley is 68 years old and was first elected to the Company's Board of Directors in 1998.

JOHN PAUL HAMMERSCHMIDT Mr. Hammerschmidt is a retired U.S. Congressman, Third District of Arkansas, who served from 1967-1993. He has been a director of Dillard's, Inc., Little Rock, Arkansas, since 1992; First Federal Bank of Arkansas, Harrison, Arkansas, since 1966; and Metropolitan Washington Airport Authority since 1997. He is the Chairman of the First Federal Bank of Arkansas and the Northwest Arkansas Council. Mr. Hammerschmidt is 82 years old and was first elected to the Company's Board of Directors in 1992.

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ROBERT L. HOWARD Mr. Howard is a retired Vice President of Shell Oil Company. From 1991 to 1995, he was Vice President, Domestic Operations, Exploration and Production of Shell, and President of Shell Western Inc. and Shell Offshore, Inc. In these positions, he was responsible for all domestic exploration and production activities. From 1985-1991, Mr. Howard was President, Shell Offshore Inc., and was responsible for all offshore exploration and production in the Gulf of Mexico, the East Coast, and Florida. During Mr. Howard's 36 years with Shell, he held various positions within Shell's exploration and production operations, including General Manager, Exploration and Production, Mid-Continent Division, and General Manager, Exploration and Production, Rocky Mountain Division and Alaska Division. Mr. Howard served as a director of Camco International, Inc. of Houston, Texas, from 1995 until 1998. Mr. Howard served as a director of Ocean Energy, Inc. from 1996 to April 2003, at which time Ocean Energy, Inc. was acquired by Devon Energy Corp. Since April 2003, Mr. Howard has served as a director of Devon Energy Corp., one of the Company's competitors. Mr. Howard also served since 1997 as a director for McDermott International, Inc. of New Orleans, Louisiana. He is 68 years old and first became a director of the Company in 1995.

HAROLD M. KORELL Mr. Korell is the President, Chief Executive Officer and Chairman of the Board of the Company. Mr. Korell joined Southwestern in 1997 as Executive Vice President and Chief Operating Officer. On May 22, 1998, Mr. Korell was promoted to President and Chief Operating Officer and was named President and Chief Executive Officer effective January 1, 1999. Mr. Korell was elected Chairman of the Board May 16, 2002. Previously, Mr. Korell was Senior Vice President Operations of American Exploration Company, Executive Vice President of McCormick Resources, and held various technical and managerial positions during his 17 years with Tenneco Oil Company, including Vice President of Production. Prior to that time, he held various positions with Mobil Corporation. Mr. Korell is 60 years old and first became a director of the Company in 1998.

VELLO A. KUUSKRAA Mr. Kuuskraa is the President and Chairman of the Board of Advanced Resources International, Inc., a privately held geological and engineering technical services company of Arlington, Virginia. He is internationally recognized for his work in energy economics, supply modeling, and new oil and gas recovery technologies. Mr. Kuuskraa served on the United States Secretary of Energy's Natural Gas Supply Task Force, was a member of the National Academy of Sciences Study Committee for defining the National Energy Modeling System, and has testified before the Federal Energy Regulatory Commission on the outlook for natural gas supplies. He has published over 100 technical papers, reports and presentations on energy resources and future natural gas supplies. Mr. Kuuskraa is also a recognized expert on the technologies of coalbed methane recovery and enhanced oil recovery and their adaptation for carbon dioxide sequestration. Mr. Kuuskraa is 64 years old and was first elected to the Company's Board of Directors in 2003.

KENNETH R. MOURTON Mr. Mourton is an Attorney at Law with the firm of Ball and Mourton, Ltd., PLLC, Fayetteville, Arkansas and is a certified public accountant (inactive). He is the Managing Principal Attorney for this firm. Mr. Mourton also owns and operates several businesses in various states related to beer distribution, lodging, warehousing and travel. He is the Chairman of the Razorback Foundation and is also a Board member of the Arkansas Rural Endowment Fund, a nonprofit corporation created by the State of Arkansas to help lower income, rural Arkansas children obtain college and university educations. Mr. Mourton is 54 years old and was first elected to the Company's Board of Directors in 1995.

CHARLES E. SCHARLAU Mr. Scharlau retired as President and Chief Executive Officer of the Company on December 31, 1998. He began his career as the Company's legal counsel in 1951 and was involved in all facets of the Company's business for over 47 years. In 1966, he was named Executive Vice President and first elected a director of the Company. In 1972, he was elected President and Chief Executive Officer. Mr. Scharlau is a consultant to the Company and is also currently of counsel with the law firm of Conner & Winters, LLP. He has been a director of Ablest, Inc., Clearwater, Florida, since 1980; a member of the Board of Trustees of the University of Arkansas since 1998 and the Chairman of such board; and Chairman of the Executive Committee for the Northwest Arkansas Council since 1999. He is also a director of Arvest Bank, Fayetteville, Arkansas and the Razorback Foundation. Mr. Scharlau is 77 years old.

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Directors who are not employees of the Company received cash compensation as indicated in the table below for fiscal year 2004. Each non-employee director also receives long-term incentive compensation in the form of restricted stock and stock options and the amounts received in 2004 are also set forth in the table. Directors who retire with certain qualifications are appointed to the position of Director Emeritus. A Director Emeritus is paid an annual fee of \$2,000 for the remainder of his life and receives the same health care benefits as the Company provides to its full time employees. Charles E. Sanders currently holds the position of Director Emeritus with the Company.

| Annual Retainer (\$)(1) | Committee Chairman Annual Retainer (\$) | Each Board Meeting Attended (\$)(1) | Each Telephonic Meeting Attended (\$) | Each Compensation, Nominating and Governance, and Retirement Committee | Each Audit Committee | Restricted Stock Awards \$(2)(3) | Nonqualified Stock Options #(4) |
|----------------------------|--|--|--|--|----------------------|-------------------------------------|------------------------------------|
| | | | | Meeting Attended (\$)(1) | Attended (\$) | | |
| 24,000 | 2,000 | 1,000 | 500 | 1,000 | 1,250 | 26,394 | 1,720 |

- (1) On October 26, 2004, the Board of Directors approved an increase in the total cash compensation payable to the outside directors. The change in compensation, effective January 1, 2005, is as follows: annual retainer, \$30,000; Board meeting, \$1,200; and the meeting fee for the Compensation, Nominating and Governance, and Retirement Committees, \$1,200.
- (2) On December 9, 2004, each outside Director was granted 530 shares of restricted stock, vesting 25% per year over four years. The value given represents the number of restricted shares times the fair market value of the Company's stock on the date of grant.
- (3) Each outside Director also received a cash award for the payment of income taxes related to the restricted stock award as follows: Mr. Epley, Mr. Hammerschmidt, and Mr. Scharlau, \$18,342; Mr. Howard and Mr. Mourton, \$15,139; and Mr. Kuuskraa, \$17,734.
- (4) Each outside Director serving as of December 9, 2004, was granted an option to purchase 1,720 shares of the Company's common stock at \$49.80 per share, representing the fair market value of the Company's common stock on the date of grant. The option grant will vest in equal annual installments over the next three years.

The total annual compensation (i.e. total cash compensation plus long-term incentive compensation) paid to each outside director in 2004 was based upon total compensation received by outside directors at 14 peer group companies as provided by the independent compensation consultants and was set at the 70th percentile for 2004 (Baseline Compensation). The amount of the long-term incentive compensation payable each year is equal to the difference between (i) Baseline Compensation and (ii) the total cash payable to outside directors for such year. The value of the total long-term incentive compensation payable in 2004 was allocated 50% to stock option awards and 50% to restricted stock awards, with the number of options and shares awarded being determined by reference to the market value of the Company's stock on the date of the award.

In addition to the compensation noted above, the Company also provided health insurance in 2004 for Messrs. Epley, Mourton and Scharlau in the amounts of \$4,239, \$2,285 and \$5,404, respectively. As an advisor to the Company, Mr. Scharlau also received consulting fees of \$5,000 in 2004 under a consulting agreement with the Company.

CORPORATE GOVERNANCE

The Company has long believed that good corporate governance is important to ensure that Southwestern Energy Company is managed for the long-term benefit of its shareholders. The Company periodically reviews its

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corporate governance policies and practices and compares them to those suggested by various authorities in corporate governance and to the practices of other public companies. The Company also continuously reviews the rules and regulations promulgated under the Sarbanes-Oxley Act of 2002, the new and proposed rules of the Securities and Exchange Commission and the new listing standards of the New York Stock Exchange.

Based on a review, the Company has taken steps to implement the requirements of these rules, regulations, and listing standards. Available on the Company website, www.swn.com, under the section Corporate Governance, are copies of the Company's:

Audit Committee Charter

Compensation Committee Charter

Nominating and Governance Committee Charter

Retirement Committee Charter

Corporate Governance Guidelines

Business Conduct Guidelines

Code of Ethics for § 406 Officers

Confidential Complaint Procedures for Questionable Accounting Practices

Nonretaliation Policy

Procedures for Contacting the Board/Presiding Director

Copies of these documents are also available in print free of charge to any shareholder upon request to the Company's Investor Relations Department.

The Board is composed of a majority of directors who qualify as independent directors pursuant to the rules adopted by the Securities and Exchange Commission applicable to the corporate governance standards for companies listed on the New York Stock Exchange. The Board committee structure includes audit, compensation, and nominating and governance committees consisting entirely of independent directors.

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It is the policy of the Board of Directors that a majority of the members of the Board be independent of the Company's management. For a director to be deemed independent, the Board affirmatively determines that the director has no material relationship with the Company or its affiliates (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company or its affiliates) or any member of the senior management of the Company or his or her affiliates. Material relationships include commercial, banking, industrial, consulting, legal, accounting, charitable and familial relationships. For making this determination, the Board has adopted a set of director independence standards that are more stringent than the corporate governance standards adopted by the New York Stock Exchange. Under the Board's independence standards, a director will not be deemed independent if he or she:

is, or within the past five years has been, employed by the Company or any of its affiliates;

is, or within the past five years has been, affiliated with or employed by a present or former auditor of the Company or any of its affiliates;

currently participates, or within the past five years has participated, in an interlocking directorate in which an executive officer of the Company or any of its affiliates serves on the compensation committee of a company that concurrently employs the director;

is, or is a director, executive officer, general partner or significant equity holder (i.e., in excess of 10%) of an entity that is, a paid adviser, paid consultant or paid provider of other professional services to the Company, any of its affiliates, any member of senior management or any affiliates of a member of senior management, if the amount of such payments has exceeded \$60,000 during the current fiscal year of the Company;

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is a director, executive officer, general partner or significant equity holder (i.e., in excess of 10%) of a significant purchaser of goods or nonprofessional services from, or supplier of goods or nonprofessional services to, the Company or any of its affiliates;

is affiliated with or employed by a tax-exempt entity that receives significant contributions (i.e., more than 3% of the annual contributions received by the entity or more than \$100,000 in a single fiscal year, whichever amount is lower) from the Company, any of its affiliates, any member of senior management or any affiliate of a member of senior management; or

is a member of the immediate family of any person who would not qualify as independent under the foregoing standards; provided, that employment of an immediate family member of a director in a non-officer position will not preclude the Board from determining that the director is independent.

Applying these standards, the Board has determined that the following majority of directors qualify as independent Lewis E. Epley, Jr., Robert L. Howard, John Paul Hammerschmidt, Vello A. Kuuskraa and Kenneth R. Mourton.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

During 2004 the Board of Directors held seven meetings, one of which was telephonic. All directors attended 100% of the Board meetings and committee meetings on which he served, other than Mr. Vello Kuuskraa who was absent from one telephonic meeting. The Board has established four standing committees: the Audit Committee, the Compensation Committee, the Nominating and Governance Committee and the Retirement Committee. During 2004, the Audit Committee held four meetings; the Compensation Committee and the Nominating and Governance Committee each held two meetings; and the Retirement Committee held one meeting.

Audit Committee The Audit Committee is composed entirely of non-employee members of the Board, each of whom satisfy the independence requirements for audit committee members under Rule 10A-3 promulgated under the Securities and Exchange Act of 1934 and are independent and financially literate as defined by New York Stock Exchange rules. Members of the Audit Committee may not simultaneously serve on the audit committee of more than two (2) other public companies. In addition, the Board of Directors has determined that Mr. Kenneth R. Mourton, Audit Committee Chairman, a certified public accountant (inactive), is an audit committee financial expert as defined in Item 401(h) of Regulation S-K and is independent as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act of 1934, as amended. The Audit Committee also includes Messrs. Robert L. Howard, and Vello A. Kuuskraa.

The Audit Committee is responsible to the Board for reviewing the accounting and auditing procedures and financial reporting practices of the Company and for the engagement of, and overseeing all audit work conducted by, the independent registered public accounting firm. The Audit Committee is governed by a Charter that has been approved by the Board of Directors. The Audit Committee meets periodically with the Company's management, internal auditor and independent registered public accounting firm to review the Company's financial information and systems of internal controls and ensure such parties are properly discharging their responsibilities. The independent registered public accounting firm reports directly to the Audit Committee and periodically meets with the Audit Committee without management representatives present. The Audit Committee maintains an internal audit function that provides management and the Audit Committee with ongoing assessments of the Company's risk management processes and system of internal control.

Compensation Committee The Compensation Committee is composed entirely of non-employee members of the Board whom are independent as defined by New York Stock Exchange rules. The Compensation Committee is responsible for establishing officer compensation and discretionary awards under the various incentive plans. The Compensation Committee is governed by a Charter that has been approved by the Board of Directors. Messrs. Robert L. Howard, Compensation Committee Chairman, John Paul Hammerschmidt, Vello A. Kuuskraa, and

Kenneth R. Mourton presently serve on this committee.

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Nominating and Governance Committee The Nominating and Governance Committee is composed entirely of non-employee members of the Board whom are independent as defined by New York Stock Exchange rules. The Nominating and Governance Committee considers candidates for nomination for Board positions, including qualified candidates recommended by shareholders, and oversees the Company's corporate governance matters and practices. The Nominating and Governance Committee is governed by a Charter that has been approved by the Board of Directors. Messrs. Lewis E. Epley, Jr., Nominating and Governance Committee Chairman, Robert L. Howard and Kenneth R. Mourton presently serve on this committee.

Retirement Committee The Retirement Committee is responsible for administering the Company's pension and retirement plans and for recommending retirement policy to the Board of Directors. The Retirement Committee is governed by a Charter that has been approved by the Board of Directors. Messrs. Charles E. Scharlau, Retirement Committee Chairman, Lewis E. Epley, Jr., and John Paul Hammerschmidt presently serve on this committee.

Presiding Director

One of the Company's non-employee directors serves as the Presiding Director of executive sessions of the non-employee directors of the Company. The Presiding Director is appointed by the non-employee directors each year at the Annual Meeting of the Board of Directors, which is generally held in May. The Presiding Director acts as chair of all executive sessions and is responsible for coordinating the activities of the other non-employee directors, including the establishment of the agenda for executive sessions of the non-employee directors, as required by the Company's Corporate Governance Guidelines and applicable listing standards. The Presiding Director also acts as the liaison director for any informal, confidential communications with the Chief Executive Officer outside of the normal Committee and Board procedures.

Identifying and Evaluating Nominees for Directors

The Board of Directors is responsible for selecting candidates for Board membership and for extending invitations to join the Board of Directors through the Nominating and Governance Committee. Candidates are selected for their character, judgment, business experience and specific areas of expertise, among other relevant considerations, such as the requirements of applicable law and listing standards. The Board of Directors recognizes the importance of soliciting new candidates for membership on the Board of Directors and that the needs of the Board of Directors, in terms of the relative experience and other qualifications of candidates, may change over time. Candidates for membership on the Board may be provided by any director or shareholder, and the Board may retain professional search firms.

The Nominating and Governance Committee is responsible for screening candidates (in consultation with the Chief Executive Officer), for establishing criteria for nominees and for recommending to the Board a slate of nominees for election to the Board of Directors at the Annual Meeting of Shareholders. After a concurrent review of all candidates by the Committee and the Chief Executive Officer, the Chairman of the Board interviews the potential candidates selected by the Committee and Chief Executive Officer, and reports his conclusions to the Committee, together with a recommendation of final candidates for interview by the members of the Committee. The Nominating and Governance Committee then interviews the final candidates and recommends to the full Board candidates for election based upon the results of the interview. Final approval of any candidate is made by the full Board of Directors.

Selection Criteria for Nominees for Directors

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Each member of the Board brings a unique and valuable perspective to the governance of the Company. When these unique skill sets are combined in an environment of interaction and respect, they provide the overall

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skill set of the Board and provide a strong governance structure. The Company's Corporate Governance Guidelines, which are available on the Company's website under "Corporate Governance" at www.swn.com, set forth certain criteria that apply to director candidates. The Nominating and Governance Committee and the Board are guided in general by the following criteria:

Each director should be chosen without regard to sex, race, religion or national origin;

Each director should be an individual of the highest character and integrity and have the ability to work well with others;

Each director should have an inquiring mind, vision and good judgment;

Each director should be free of any conflict of interest which would violate any applicable law or regulation or interfere with the proper performance of the responsibilities of a director;

Each director should possess substantial and significant business experience in specific areas of expertise that would be important to the Company in the performance of the duties of a director;

Each director's skill set should be complementary to the background and experience of other Board members;

Each director should have sufficient time available to devote to the affairs of the Company in order to carry out the responsibilities of a director; and

Each director should have the capacity and desire to represent the balanced, best interests of all shareholders and objectively appraise management performance.

The Nominating and Governance Committee evaluates the qualifications of each director candidate against the foregoing criteria in connection with its recommendation to the Board concerning his or her nomination for election or re-election as a director. The Nominating and Governance Committee, with direct input and advice from the Chief Executive Officer, is responsible for assessing the appropriate mix of skills and characteristics required of Board members in the context of the perceived needs of the Board at a given point in time and periodically reviews and updates the criteria as deemed necessary.

Each director's continuation on the Board is reviewed at the expiration of his or her term and before that director is reconsidered for election. In connection with its annual recommendation of a slate of nominees, the Nominating and Governance Committee, in consultation with the Chairman of the Board, reviews and assesses the contributions of those directors selected for re-election. At the conclusion of this process, the Chairman of the Nominating and Governance Committee reports the Committee's conclusions to the full Board.

Shareholder Nominations

The Company's by-laws permit shareholders to nominate directors for consideration at an annual meeting of shareholders. Such nominations must be made pursuant to timely notice in writing to the Secretary of the Company, Mark K. Boling, Southwestern Energy Company, 2350 N.

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Sam Houston Parkway East, Suite 300, Houston, Texas 77032. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Company not less than 50 nor more than 75 days prior to the meeting date; provided, however, that in the event that less than 65 days' notice of the meeting date is given to shareholders, notice by the shareholder must be received no later than the close of business on the 15th day following the day on which notice of the meeting date was mailed. The written notice must set forth (a) as to each nominee whom the shareholder proposes to nominate for election or reelection as a director, (i) the name, age, business address and residence address of the nominee, (ii) the principal occupation or employment of the nominee, (iii) the class and number of shares of capital stock of the Company which are beneficially owned by the nominee and (iv) any other information relating to the nominee that is required to be disclosed in solicitations for proxies for election of directors pursuant to Schedule 14A under the Securities Exchange Act of 1934, as amended; and (b) as to the

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shareholder giving the notice, (i) the name and record address of the shareholder and (ii) the class and number of shares of capital stock of the Company that are beneficially owned by the shareholder. The Company may require any proposed nominee to furnish such other information as may reasonably be required by the Company to determine the eligibility of such proposed nominee to serve as a director of the Company.

The policy of the Nominating and Governance Committee is to consider properly submitted shareholder nominations for directors as described above under Identifying and Evaluating Nominees for Directors. In evaluating such nominations the Nominating and Governance Committee seeks to address the criteria set forth above under Selection Criteria for Nominees for Directors.

Communications to Non-Employee Directors

The Board provides a process for shareholders to send communications to the Presiding Director, the non-employee directors as a group or any of the other directors, including the entire Board. Shareholders may send written communications to the non-employee directors, the Presiding Director or any of the other directors to the Secretary of the Company, Mark K. Boling, Southwestern Energy Company, 2350 N. Sam Houston Parkway East, Suite 300, Houston, Texas 77032. The Secretary will review, sort and summarize the communications and forward them to the intended recipient(s) on a periodic basis, but no less frequently than every calendar quarter.

Attendance at Annual Meeting

It is the Company's policy that the directors who are up for election attend the Annual Meeting of Shareholders. Each member of the Company's Board of Directors attended last year's Annual Meeting of Shareholders.

PROPOSAL NO. 2

RATIFICATION OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has selected PricewaterhouseCoopers LLP (PwC) as the independent registered public accounting firm of the Company for 2005. PwC has been the independent registered public accounting firm of the Company since its selection, upon recommendation of the Audit Committee, on June 20, 2002.

RELATIONSHIP WITH INDEPENDENT REGISTERED PUBLIC

ACCOUNTING FIRM

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The following table presents aggregate fees for professional audit services rendered by PwC for the audit of the Company's annual financial statements for each of the years ended December 31, 2004 and 2003, and fees billed for other services rendered by PwC during those periods:

| | <u>2004</u> | <u>2003</u> |
|------------------------|-------------------|-------------------|
| Audit Fees (1) | \$ 625,500 | \$ 222,680 |
| Audit-Related Fees (2) | 60,105 | 88,325 |
| Tax Fees (3) | 20,250 | 26,411 |
| All Other Fees (4) | - | 2,650 |
| | <u> </u> | <u> </u> |
| Total | \$ 705,855 | \$ 340,066 |

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- (1) The Audit fees for the years ended December 31, 2004 and 2003, respectively, were for professional services rendered for the audits of the consolidated financial statements of the Company, reviews of the quarterly financial statements, services related to the issuance of comfort letters, consents, and assistance with review of documents filed with the SEC. For 2004, the audit of the consolidated financial statements was integrated with the audit of internal controls.
- (2) The Audit-Related fees for the years ended December 31, 2004 and 2003, were for assurance and related services for employee benefit plan audits, consultations concerning financial accounting and reporting standards and advisory services related to compliance with Section 404 of the Sarbanes-Oxley Act.
- (3) Tax fees for the years ended December 31, 2004 and 2003 were for services related to the review of federal and state tax returns. Tax fees for 2003 also included \$6,161 of tax research and consultation.
- (4) All other fees for the years ended December 31, 2003 were for billings related to the use of a licensed accounting research product and an industry compensation survey.

The Audit Committee pre-approves all audit services and non-audit services (including the fees and terms thereof) to be performed for the Company by its independent registered public accounting firm, as required by applicable law or listing standards and subject to the terms of the audit and non-audit services pre-approval policy adopted by the Audit Committee (the Pre-Approval Policy). A copy of the Company's Pre-Approval Policy is attached hereto as Appendix A. The Committee may delegate authority to one or more of its members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of any such member to grant pre-approvals are consistent with the terms of the Pre-Approval Policy and are presented to the full Committee at its next scheduled meeting.

The Committee receives periodic reports from the independent registered public accounting firm as required by the Independence Standards Board (or any successor body) regarding the auditors' independence, which is not less frequently than annually. The Committee discusses such reports with the auditors, and if so determined by the Committee, takes appropriate action to satisfy itself of the independence of the auditors. The Committee reviews the performance of the Company's independent registered public accounting firm annually. In doing so, the Committee consults with management and the internal auditor and obtains and reviews a report by the independent registered public accounting firm describing (i) their internal quality-control procedures, (ii) material issues raised by their most recent internal quality-control review, or peer review (if applicable), or by any inquiry or investigation by governmental or professional authorities for the preceding five years, (iii) the response of the independent registered public accounting firm with respect to any such issues, and (iv) all relationships between the independent registered public accounting firm and the Company. The Committee ensures rotation of the audit partners as required by applicable law and listing standards.

The Audit Committee approved all non-audit services for 2004. The Audit Committee also considered whether the provisions of the services by PwC described above under All Other Fees are compatible with maintaining the independence of PwC.

Representatives of PwC will be present at the Annual Meeting of Shareholders and will have an opportunity to make a statement to shareholders if they so desire. The representatives will also be available to respond to questions from shareholders. There have been no