

SOUTHWESTERN ENERGY CO

Form 11-K

June 27, 2003

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

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended December 31,2002

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number
1-8246

A. Full title of the plan and the address of the plan, if different from that of the issuer
named below:

Southwestern Energy Company 401(k) Savings Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its
principal executive office:

SOUTHWESTERN ENERGY COMPANY
2350 N. Sam Houston Parkway E.

Suite 300
Houston, Texas 77032

Southwestern Energy
Company
401(k) Savings Plan

**Financial Statements and Supplemental Schedule
December 31, 2002 and 2001**

**Southwestern Energy Company
401(k) Savings Plan
Contents
December 31, 2002 and 2001**

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Report of Independent Auditors

To the Retirement Committee of
Southwestern Energy Company

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of Southwestern Energy Company 401(k) Savings Plan (the "Plan") at December 31, 2002, and the changes in net assets available for benefits for the year ended December 31, 2002 in conformity with accounting principles generally

accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The statement of net assets available for benefits of the Plan as of December 31, 2001 was audited by other independent auditors who have ceased operations. Those independent auditors expressed an unqualified opinion on that statement in their report dated May 3, 2002.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

June 4, 2003

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Southwestern Energy Company
401(k) Savings Plan
Statements of Net Assets Available for Benefits
December 31, 2002 and 2001

| | 2002 | 2001 |
|-----------------------------------|---------------|---------------|
| Assets | | |
| Investments, at fair value | | |
| Mutual funds | \$ 8,148,355 | \$ 9,103,120 |
| Common collective trusts | 8,144,394 | 7,878,263 |
| Common stock | 709,006 | 611,540 |
| Participant loans | 520,401 | 441,163 |
| | 17,522,156 | 18,034,086 |
| Other assets | | |
| Contributions receivable | 107,633 | 105,653 |
| Net assets available for benefits | \$ 17,629,789 | \$ 18,139,739 |

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

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Southwestern Energy Company
401(k) Savings Plan
Statements of Changes in Net Assets Available for Benefits
Year Ended December 31, 2002

| | | |
|--|----|------------|
| Additions | | |
| Contributions | | |
| Participants | \$ | 1,839,700 |
| Employer, net of forfeitures | | 696,454 |
| Total contributions | | 2,536,154 |
| Interest and dividend income | | 456,605 |
| Total additions | | 2,992,759 |
| Deductions | | |
| Benefits paid to participants | | 1,117,788 |
| Net depreciation in fair value of investments | | 2,384,921 |
| Total deductions | | 3,502,709 |
| Net decrease in net assets available for benefits | | (509,950) |
| Net assets available for benefits | | |
| Beginning of year | | 18,139,739 |
| End of year | \$ | 17,629,789 |

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

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Southwestern Energy Company
401(k) Savings Plan
Notes to Financial Statements
December 31, 2002 and 2001
1. Description of Plan

The following description of the Southwestern Energy Company 401(k) Savings Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan that covers all employees of Southwestern Energy Company (the "Company") and its subsidiaries except for:

- a) Employees who have not yet completed thirty (30) days of service;
- b) Employees who are under the age of twenty-one (21); and
- c) Seasonal employees who have one thousand (1,000) or less hours of service for the applicable computation period.

Participation by eligible employees in the Plan is voluntary. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Administration

The trust under the Plan is operated under a trust agreement with Scudder Trust Company.

Contributions and Funding Policy

Participants may contribute from 1 percent to 16 percent of their compensation in Salary Reduction Contributions, as defined. The Company matches 50 percent up to 6 percent of the employee's compensation. All contributions to the Plan are invested under the direction of the participant in nine investment options including Company stock. Investments in stock of Entergy Corporation originated from a previous plan merger and is no longer an active investment option. Contributions are subject to certain limitations as determined by the Internal Revenue Code.

Vesting

Participants are immediately vested in their contributions plus actual earnings thereon. Participants vest in the Company's contributions to the Plan as set forth in the following schedule:

| Years of Vesting Service | Percent Vested |
|---------------------------------|-----------------------|
| 1 | 0 percent |
| 2 | 50 percent |
| 3 | 100 percent |

Participants' Accounts

Each participant's account is credited with the participant's contributions and an allocation of the Company's contribution and the Plan's investment earnings.

The Plan permits current participants to apply for and receive loans, which represent borrowings from a participant's account. The maximum amount of any loan available under the Plan is limited to the lesser of \$50,000 or 50 percent of a participant's vested account balance. The loans are collateralized by the balance in the participant's account and bear interest at one percentage point above the prime

lending rate. At December 31, 2002, interest rates ranged from 5.25 to 10.50 percent.

Although withdrawals from active participants' accounts are restricted by the Plan, various options are available to participants, which are based on the type of contributions made, age of the participant and other factors.

On termination of service due to death or disability, a participant or a participant's estate may receive the full value of his or her account in a lump sum. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump sum.

Forfeitures

Forfeited nonvested amounts are applied to restore matching contributions of any Plan participants because of a valid repayment. Remaining forfeitures are used to reduce Plan expenses. Any forfeiture amounts that remain following payment of Plan expenses will be used to reduce employer matching contributions. At December 31, 2002, there were no forfeitures available to be used for the purposes stated above.

Plan Termination

The Plan gives the Company the right to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100 percent vested in the contributions made by the Company.

2. **Summary of Significant Accounting Policies**

Basis of Accounting

The Plan's financial statements are presented on the accrual basis of accounting.

Estimates

The preparation of the Plan's financial statements in conformity with generally accepted accounting principles requires the Plan to make significant estimates and assumptions that affect the reported amounts of net assets available for benefits at the date of the financial statements and the changes in net assets available for benefits during the reporting period and, when applicable, the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan's investments are stated at fair value. Mutual funds and common stock are valued at quoted year-end market prices. Units of common collective trusts are valued at quoted market prices which represent the net asset value of shares held by the Plan at year end. Purchases and sales of securities are recorded on a trade-date basis. Interest and divided income are recorded on the accrual basis.

Expenses incurred in connection with the Plan are paid by the Company. During 2002 and 2001, the Company paid \$14,046 and \$13,734, respectively, in expenses on behalf of the Plan. Brokerage commissions and transfer taxes incurred in connection with securities transactions are treated as part of the purchase cost or a reduction of sales proceeds.

3. Tax Status

The Internal Revenue Service issued a favorable determination letter dated May 9, 1996, stating that the Plan was designed in accordance with applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's legal counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

4. Investments

The following investments, stated at market value, represent 5 percent or more of the net assets available for benefits at December 31:

| | 2002 | 2001 |
|---|-------------|-------------|
| Scudder Trust Company Collective Investment Trust - Stable Value Fund | \$5,112,841 | \$4,360,529 |
| Scudder Trust company - Growth and Income Fund | 3,095,403 | 4,253,013 |
| Scudder Trust Company Collective Investment Trust - Stock Index Fund | 3,031,553 | 3,517,734 |
| Pimco Funds - Total Return Fund | 2,171,221 | 1,671,192 |
| Scudder Trust company - Pathway Series Moderate Fund | 1,166,879 | 1,404,380 |
| PBHG Funds - Mid Cap Value Fund | 1,086,807 | 1,109,598 |

5. Benefits Payable

Amounts allocated for benefits requested by participants before year end, but not paid until after year end, were \$0 and \$248,800 at December 31, 2002 and 2001, respectively.

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6. Net Depreciation in Fair Value of Investments

Net appreciation (depreciation) by investment type for the year ended December 31, 2002 was as follows:

| | |
|--------------------------|---------------|
| Mutual funds | \$(1,629,329) |
| Common collective trusts | (840,920) |
| Common stock | 85,328 |
| | \$(2,384,921) |

7. **Risk and Uncertainties**

The Plan provides for various investment options in any combination of mutual funds, common stock and common collective trusts. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits and the statement of changes in net assets available for benefits.

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Southwestern Energy Company
401(k) Savings Plan
Schedule of Assets (Held at End of Year)
December 31, 2002

| Party in Interest Identification | Identity of Issuer, Borrower, Lessor or Similar Party | Description of Investment Including Maturity Date, Rate of Interest Collateral, Par or Maturity Value | Current Value |
|---|--|--|----------------------|
| * | Scudder Trust Company Collective Investment Trust | Stable Value Fund | \$ 5,112,841 |
| * | Scudder Trust Company | Growth and Income Fund | 3,095,403 |
| * | Scudder Trust Company Collective Investment Trust | Stock Index Fund | 3,031,553 |
| | Pimco Funds | Total Return Funds | 2,171,221 |
| * | Scudder Trust Company | Pathway Series - Moderate Fund | 1,166,879 |
| | PBHG Funds | Mid Cap Value Fund | 1,086,807 |
| * | Southwestern Energy Company | 48,837 Common Shares | 559,189 |

| | | | |
|---|---------------------------|--|---------------|
| * | Scudder Trust Company | International Fund | 417,987 |
| * | Scudder Trust Company | 21st Century Growth Fund | 210,058 |
| | Entergy Corporation | 3,286 Common Shares | 149,817 |
| * | Various plan participants | Participant loans with interest rates from 5.25 percent to 10.5 percent and various maturities | 520,401 |
| | | | \$ 17,522,156 |

* Parties-in-interest

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SIGNATURES

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

SOUTHWESTERN ENERGY COMPANY
401(k) SAVINGS PLAN

Date: June 27, 2003

By: /s/ GREG D. KERLEY
Greg D. Kerley
Executive Vice President
and Chief Financial Officer,
Southwestern Energy Company

EXHIBIT INDEX

**EXHIBIT
NUMBER**

EXHIBIT

| | |
|------|--|
| 23.1 | <u>Consent of Independent Public Accountants</u> |
| 99.1 | <u>Section 906 Certification</u> |