SOUTHWESTERN ENERGY CO
Form 10-Q/A
February 19, 2013

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

Form 10-Q/A

(Mark One)
[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities

Exchange Act of 1934

For the quarterly period ended September 30, 2012

Or

[ ] Transition Report pursuant to Section 13 or 15(d) of the Securities

Exchange Act of 1934

For the transition period from __________ to __________

Commission file number: 1-08246

Southwestern Energy Company
(Exact name of registrant as specified in its charter)

Delaware	71-0205415
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2350 North Sam Houston Parkway East, Suite 125, Houston, Texas	77032
(Address of principal executive offices)	(Zip Code)

(281) 618-4700
(Registrant s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yesx No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yesx No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	Outstanding as of October 26, 2012
Common Stock, Par Value $0.01	350,353,301

EXPLANATORY NOTE

We are filing this Amendment on Form 10-Q/A to amend and restate in their entirety the following items of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 as originally filed with the Securities and Exchange Commission on November 1, 2012 (the Original Form 10-Q):

(i) Item 1 of Part I Financial Information,
(ii) Item 2 of Part I, Management s Discussion and Analysis of Financial Condition and Results of Operations,
(iii) Item 4 of Part I, Controls and Procedures,
(iv) Item 6 of Part II, Exhibits , and
(v) Updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, and our condensed consolidated financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101.

In connection with the preparation of our 2012 annual report, management of Southwestern Energy Company (Company), and the Audit Committee of the Board of Directors determined that the calculation we had prepared in the third quarter of 2012 to determine whether the Company s net book value of its United States natural gas and oil properties exceeded the ceiling did not meet the technical requirements of Regulation S-X Rule 4-10 of the Securities and Exchange Commission. The Company calculated its full cost ceiling value without consideration of the tax benefit of capitalized intangible drilling costs resulting in an overstatement of the non-cash impairment of natural gas and oil properties recorded for those periods.

The Company has restated the Condensed Consolidated Financial Statements for the periods ended September 30, 2012 to reflect the change in calculation of the Company s net book value of its United States natural gas and oil properties. The principle effect of the restatement is a decrease to our non-cash, after tax, ceiling impairment by $90.9 million in the third quarter of 2012.

No other sections were affected, but for the convenience of the reader, this report on Form 10-Q/A restates in its entirety our Original Form 10-Q, with footnotes indicating changes in balances as they apply to the restatement. This report on Form 10-Q/A is presented as of the filing date of the Original Form 10-Q and does not reflect events occurring after that date, or modify or update disclosures in any way other than as required to reflect the restatement described above.

SOUTHWESTERN ENERGY COMPANY

INDEX TO FORM 10-Q/A
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

PART I FINANCIAL INFORMATION

PART II OTHER INFORMATION

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

All statements, other than historical fact or present financial information, may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements that address activities, outcomes and other matters that should or may occur in the future, including, without limitation, statements regarding the financial position, business strategy, production and reserve growth and other plans and objectives for our future operations, are forward-looking statements. Although we believe the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance. We have no obligation and make no undertaking to publicly update or revise any forward-looking statements, except as may be required by law.

Forward-looking statements include the items identified in the preceding paragraph, information concerning possible or assumed future results of operations and other statements in this Form 10-Q/A identified by words such as anticipate, project, intend, estimate, expect, believe, predict, budget, projection, goal, plan, fo expressions.

You should not place undue reliance on forward-looking statements. They are subject to known and unknown risks, uncertainties and other factors that may affect our operations, markets, products, services and prices and cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with forward-looking statements, risks, uncertainties and factors that could cause our actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- the timing and extent of changes in market conditions and prices for natural gas and oil (including regional basis differentials);
- our ability to fund our planned capital investments;
- our ability to transport our production to the most favorable markets or at all;
- the timing and extent of our success in discovering, developing, producing and estimating reserves;
- the economic viability of, and our success in drilling, our large acreage position in the Fayetteville Shale play overall as well as relative to other productive shale gas plays;
- the impact of government regulation, including any increase in severance or similar taxes, legislation relating to hydraulic fracturing, the climate and over the counter derivatives;
- the costs and availability of oilfield personnel, services and drilling supplies, raw materials, and equipment, including pressure pumping equipment and crews;

- our ability to determine the most effective and economic fracture stimulation for the Fayetteville Shale play and Marcellus Shale play;
- our future property acquisition or divestiture activities;
- the impact of the adverse outcome of any material litigation against us;
- the effects of weather;
- increased competition and regulation;
- the financial impact of accounting regulations and critical accounting policies;
- the comparative cost of alternative fuels;
- conditions in capital markets, changes in interest rates and the ability of our lenders to provide us with funds as agreed;
- credit risk relating to the risk of loss as a result of non-performance by our counterparties; and
- any other factors listed in the reports we have filed and may file with the Securities and Exchange Commission (SEC).

We caution you that forward-looking statements contained in this Form 10-Q/A are subject to all of the risks and uncertainties, many of which are beyond our control, incident to the exploration for and development, production and sale of natural gas and oil. These risks include, but are not limited to, commodity price volatility, third-party interruption of sales to market, inflation, lack of availability of goods and services, environmental risks, drilling and other operating risks, regulatory changes, the uncertainty inherent in estimating proved natural gas and oil reserves and in projecting future rates of production and timing of development expenditures and the other risks described in our Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Annual Report on Form 10-K), and all quarterly reports on Form 10-Q filed subsequently thereto, including this Form 10-Q/A (Form 10-Qs).

Should one or more of the risks or uncertainties described above or elsewhere in this Form 10-Q/A occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements. We specifically disclaim all responsibility to publicly update any information contained in a forward-looking statement or any forward-looking statement in its entirety and therefore disclaim any resulting liability for potentially related damages.

All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2012 (Restated)	2011	2012 (Restated)	2011
	(in thousands, except share/per share amounts)			
Operating Revenues:				
Gas sales	$491,340	$551,770	$1,384,152	$1,544,165
Gas marketing	148,764	176,787	423,503	549,243
Oil sales	1,889	2,157	6,097	7,387
Gas gathering	43,855	36,541	128,293	107,961
	685,848	767,255	1,942,045	2,208,756
Operating Costs and Expenses:				
Gas purchases midstream services	149,651	175,236	423,941	545,518
Operating expenses	61,906	63,911	179,478	175,763
General and administrative expenses	36,121	35,600	129,879	112,955
Depreciation, depletion and amortization	203,935	179,113	605,392	514,180
Impairment of natural gas and oil properties	289,821		1,090,473	
Taxes, other than income taxes	16,252	17,677	51,154	49,429
	757,686	471,537	2,480,317	1,397,845
Operating Income (Loss)	(71,838)	295,718	(538,272)	810,911
Interest Expense:				
Interest on debt	25,463	16,696	69,154	48,380
Other interest charges	1,058	902	3,096	3,414
Interest capitalized	(15,915)	(11,941)	(45,945)	(32,531)
	10,606	5,657	26,305	19,263
Other Income (Loss), Net	238	(122)	2,615	321
Income (Loss) Before Income Taxes	(82,206)	289,939	(561,962)	791,969
Provision (Benefit) for Income Taxes:				
Current	101	3,491	369	3,691
Deferred	(28,254)	111,275	(210,850)	309,042
	(28,153)	114,766	(210,481)	312,733
Net Income (Loss)	$(54,053)	$175,173	$(351,481)	$479,236

Earnings (Loss) Per Share:

Basic	$(0.16)	$0.50	$(1.01)	$1.38
Diluted	$(0.16)	$0.50	$(1.01)	$1.37
Weighted Average Common Shares Outstanding:				
Basic	348,649,630	347,239,793	348,272,192	347,070,330
Diluted	348,649,630	349,998,789	348,272,192	349,891,885

See the accompanying notes which are an integral part of these

unaudited condensed consolidated financial statements.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2012 (Restated)	2011	2012 (Restated)	2011
	(in thousands)			
Net income (loss)	$(54,053)	$175,173	$(351,481)	$479,236
Change in derivatives:				
Reclassification to earnings [(1)]	(94,996)	(49,436)	(310,882)	(113,850)
Ineffectiveness [(2)]	322	1,574	(1,215)	307
Change in fair value of derivative instruments [(3)]	(36,468)	170,251	93,985	259,559
Total change in derivatives	(131,142)	122,389	(218,112)	146,016
Change in value of pension and other postretirement liabilities:				
Amortization of prior service cost included in net periodic pension cost [(4)]	254	197	762	590
Change in currency translation adjustment	997	(1,219)	962	(831)
Comprehensive income (loss)	$(183,944)	$296,540	$(567,869)	$625,011

(1) Net of ($62.2), ($31.6), ($202.6) and ($72.8) million in taxes for the three months ended September 30, 2012 and 2011, and the nine months ended September 30, 2012 and 2011, respectively.

(2) Net of $0.2, $1.0, ($0.8) and $0.2 million in taxes for the three months ended September 30, 2012 and 2011, and the nine months ended September 30, 2012 and 2011, respectively.

(3) Net of ($22.1), $108.8, $62.7 and $165.9 million in taxes for the three months ended September 30, 2012 and 2011, and the nine months ended September 30, 2012 and 2011, respectively.

(4) Net of $0.2,$0.2, $0.5 and $0.4 million in taxes for the three months ended September 30, 2012 and 2011, and the nine months ended September 30, 2012 and 2011, respectively.

See the accompanying notes which are an integral part of these

unaudited condensed consolidated financial statements.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2012 (Restated)	December 31, 2011
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$18,560	$15,627
Restricted cash	127,074	
Accounts receivable	297,773	341,915
Inventories	30,630	46,234
Hedging asset	300,861	514,465
Other	71,849	60,037
Total current assets	846,747	978,278
Natural gas and oil properties, using the full cost method, including $1,130.4 million in 2012 and $942.9 million in 2011 excluded from amortization	10,855,274	9,544,708
Gathering systems	1,087,139	980,647
Other	564,490	535,464
Less: Accumulated depreciation, depletion and amortization	(6,131,344)	(4,415,339)
Total property and equipment, net	6,375,559	6,645,480
Other assets	134,256	279,139
TOTAL ASSETS	$7,356,562	$7,902,897
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$468,646	$514,071
Taxes payable	36,902	40,691
Interest payable	14,232	20,565
Advances from partners	110,237	84,082
Current deferred income taxes	116,463	194,163
Other	14,685	31,341
Total current liabilities	761,165	884,913
Long-term debt	1,695,342	1,342,100
Deferred income taxes	1,313,584	1,586,798
Pension and other postretirement liabilities	18,141	20,338
Other long-term liabilities	141,321	99,444
Total long-term liabilities	3,168,388	3,048,680
Commitments and contingencies (Note 10)		
Equity:		
Common stock, $0.01 par value; authorized 1,250,000,000 shares; issued 350,415,917 shares in 2012 and 349,058,501 in 2011	3,504	3,491
Additional paid-in capital	928,322	903,399
Retained earnings	2,304,733	2,656,214
Accumulated other comprehensive income	192,040	408,428
Common stock in treasury, 66,791 shares in 2012 and 98,889 in 2011	(1,590)	(2,228)

Total equity	3,427,009	3,969,304
TOTAL LIABILITIES AND EQUITY	$7,356,562	$7,902,897

See the accompanying notes which are an integral part of these
these unaudited condensed consolidated financial statements.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the nine months ended September 30,	
	2012	2011
	(Restated)	
	(in thousands)	
Cash Flows From Operating Activities		
Net income (loss)	$(351,481)	$479,236
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	608,167	516,891
Impairment of natural gas and oil properties	1,090,473	
Deferred income taxes	(210,850)	309,042
Unrealized gain on derivatives	(2,890)	905
Stock-based compensation	8,226	6,619
Other	312	(353)
Change in assets and liabilities:		
Accounts receivable	44,148	4,664
Inventories	16,608	(5,993)
Accounts payable	(11,050)	1,539
Taxes payable	(3,789)	(21,165)
Interest payable	(2,306)	(9,365)
Advances from partners	26,155	14,568
Other assets and liabilities	(19,246)	3,623
Net cash provided by operating activities	1,192,477	1,300,211
Cash Flows From Investing Activities		
Capital investments	(1,623,751)	(1,543,549)
Proceeds from sale of property and equipment	201,161	121,546
Transfers to restricted cash	(167,774)	(85,040)
Transfers from restricted cash	40,700	15,779
Other	5,239	4,940
Net cash used in investing activities	(1,544,425)	(1,486,324)
Cash Flows From Financing Activities		
Payments on current portion of long-term debt	(600)	(600)
Payments on revolving long-term debt	(1,774,000)	(2,575,000)
Borrowings under revolving long-term debt	1,129,000	2,753,600
Change in bank drafts outstanding	1,627	10,621
Proceeds from issuance of long-term debt	998,780	
Debt issuance costs	(8,338)	
Revolving credit facility costs		(10,211)
Proceeds from exercise of common stock options	8,422	4,844
Net cash provided by financing activities	354,891	183,254
Effect of exchange rate changes on cash	(10)	97

Increase (decrease) in cash and cash equivalents	2,933	(2,762)
Cash and cash equivalents at beginning of year	15,627	16,055
Cash and cash equivalents at end of period	$18,560	$13,293

See the accompanying notes which are an integral part of

these unaudited condensed consolidated financial statements.

8

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

	Common Stock Shares Issued	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock in Treasury	Total
	(in thousands)						
Balance at December 31, 2011	349,059	$3,491	$903,399	$2,656,214	$ 408,428	$(2,228)	$3,969,304
Comprehensive loss:							
Net loss				(351,481)			(351,481)
Other comprehensive loss					(216,388)		(216,388)
Total comprehensive loss							(567,869)
Stock-based compensation			16,014				16,014
Exercise of stock options	1,422	14	8,408				8,422
Issuance of restricted stock	12						
Cancellation of restricted stock	(77)	(1)	1				
Treasury stock non-qualified plan			500			638	1,138
Balance at September 30, 2012 (Restated)	350,416	$3,504	$928,322	$2,304,733	$ 192,040	$(1,590)	$3,427,009

See the accompanying notes which are an integral part of these

unaudited condensed consolidated financial statements.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) FINANCIAL STATEMENT RESTATEMENT

In connection with the preparation of our 2012 annual report, management of Southwestern Energy Company (Company), and the Audit Committee of the Board of Directors determined that the calculation we had prepared in the third quarter of 2012 to determine whether the Company s net book value of its United States natural gas and oil properties exceeded the ceiling did not meet the technical requirements of Regulation S-X Rule 4-10 of the Securities and Exchange Commission. The Company calculated its full cost ceiling value without consideration of the tax benefit of capitalized intangible drilling costs resulting in an overstatement of the non-cash impairment of natural gas and oil properties recorded for those periods.

The Company has restated the Condensed Consolidated Financial Statements for the period ended September 30, 2012 to reflect the change in calculation of the Company s net book value of its United States natural gas and oil properties. The principle effect of the restatement is a decrease to our non-cash, after tax, ceiling impairment by $90.9 million in the three and nine months ended September 30, 2012.

In this Form 10-Q/A, the Company is restating the Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2012. The effect of the restatement on Condensed Consolidated Statements of Operations, Condensed Consolidated Balance Sheets, and Condensed Consolidated Statements of Cash Flows are as follows:

	For the Three Months Ended September 30, 2012		For the Nine Months Ended September 30, 2012	
	Previously Reported	As Restated	Previously Reported	As Restated
	(in thousands, except per/share data)		(in thousands, except per/share data)	
Consolidated Statements of Income				
Depreciation, depletion and amortization	$200,655	$203,935	$602,112	$605,392
Impairment of natural gas and oil properties	$441,465	$289,821	$1,377,364	$1,090,473
Deferred Benefit for Income Taxes	$(85,856)	$(28,254)	$(320,731)	$(210,850)
Net Loss	$(144,815)	$(54,053)	$(525,211)	$(351,481)
Loss Per Share:				
Basic	$(0.42)	$(0.16)	$(1.51)	$(1.01)
Diluted	$(0.42)	$(0.16)	$(1.51)	$(1.01)

	At September 30, 2012	
	Previously Reported	As Restated
	(in thousands)	
Consolidated Balance Sheet		
Accumulated depreciation, depletion and amortization	$(6,414,955)	$(6,131,344)
Deferred income taxes	$1,203,703	$1,313,584
Retained earnings	$2,131,003	$2,304,733

10

	For the Nine Months Ended September 30, 2012	
	Previously Reported	As Restated
	(in thousands)	
Cash Flows From Operating Activities		
Net loss	$(525,211)	$(351,481)
Impairment of natural gas and oil properties	$1,377,364	$1,090,473
Deferred income taxes	$(320,731)	$(210,850)

The restatement had no impact on net cash provided by/used in operating, investing or financing sections of the statement of cash flows.

(2) BASIS OF PRESENTATION AND NEW ACCOUNTING STANDARDS

Southwestern Energy Company (including its subsidiaries, collectively, we , Southwestern or the Company) is an independent energy company engaged in natural gas and oil exploration, development and production. The Company engages in natural gas and oil exploration and production, natural gas gathering and natural gas marketing through its subsidiaries. Southwestern s exploration, development and production (E&P) activities are principally focused within the United States on development of an unconventional gas reservoir located on the Arkansas side of the Arkoma Basin, which the Company refers to as the Fayetteville Shale play. The Company is actively engaged in exploration and production activities in Pennsylvania, where we are targeting the unconventional gas reservoir known as the Marcellus Shale, and to a lesser extent in Texas and in Arkansas and Oklahoma in the Arkoma Basin. The Company also actively seeks to find and develop new oil and natural gas plays with significant exploration and exploitation potential. Southwestern s natural gas gathering and marketing (Midstream Services) activities primarily support the Company s E&P activities in Arkansas, Pennsylvania and Texas.

The accompanying unaudited condensed consolidated financial statements were prepared using accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission. Certain information relating to the Company s organization and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been appropriately condensed or omitted in this Quarterly Report on Form 10-Q/A. The Company believes the disclosures made are adequate to make the information presented not misleading.

The unaudited condensed consolidated financial statements contained in this report include all normal and recurring material adjustments that, in the opinion of management, are necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented herein. It is recommended that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 (2011 Annual Report on Form 10-K).

The Company s significant accounting policies, which have been reviewed and approved by the Audit Committee of the Company s Board of Directors, are summarized in Note 1 in the Notes to the Consolidated Financial Statements included in the Company s 2011 Annual Report on Form 10-K. The Company evaluates subsequent events through the date the financial statements are issued.

Certain reclassifications have been made to the prior year financial statements to conform to the 2012 presentation. The effects of the reclassifications were not material to the Company s unaudited condensed consolidated financial statements.

In the third quarter of 2012, the Company recorded a correction to increase the asset retirement obligation by approximately $39 million. Because the amounts involved were not material to the Company s financial statements in any individual prior period and the cumulative amount is not material to the current period financial statements, the Company recorded the cumulative effect of correcting this error during the quarter ended September 30, 2012.

(3) DIVESTITURES

In May 2012, we sold certain oil and natural gas leases, wells and gathering equipment in East Texas for approximately $168.0 million, excluding typical purchase price adjustments. The proceeds were deposited with a qualified intermediary to facilitate potential like-kind exchange transactions pursuant to Section 1031 of the Internal Revenue Code and, unless utilized for one or more like-kind exchange transactions, were restricted in their use until October 2012. The assets included in the sale represented all of the Company s interests and related assets in the Overton Field in Smith County. The net production from the sold assets was approximately 24.0 MMcfe per day as of the closing date and our net proved reserves were approximately 143.0 Bcfe at December 31, 2011.

In May 2011, we sold certain oil and natural gas leases, wells and gathering equipment in East Texas for approximately $118.1 million. The sale included only the producing rights to the Haynesville and Middle Bossier Shale intervals in approximately 9,717 net acres. The net production from the Haynesville and Middle Bossier Shale intervals in this acreage was approximately 7.0 MMcf per day and proved net reserves were approximately 37.1 Bcf when the sale was closed in May 2011.

(4) PREPAID EXPENSES

The components of prepaid expenses included in other current assets as of September 30, 2012 and December 31, 2011 consisted of the following:

	September 30, 2012	December 31, 2011
	(in thousands)	
Prepaid drilling costs	$ 47,462	$ 42,775
Prepaid insurance	11,944	7,275
Total	$ 59,406	$ 50,050

(5) INVENTORY

Inventory recorded in current assets includes \$6.2 million at September 30, 2012 and \$7.8 million at December 31, 2011 for natural gas in underground storage owned by the Company s E&P segment, and \$24.4 million at September 30, 2012 and \$38.4 million at December 31, 2011 for tubular and other equipment used in the E&P segment.

Other Assets include \$17.8 million at September 30, 2012 and \$19.5 million December 31, 2011, respectively, for inventory held by the Midstream Services segment consisting primarily of pipe that will be used to construct gathering systems for the Fayetteville Shale play.

(6) NATURAL GAS AND OIL PROPERTIES

The Company utilizes the full cost method of accounting for costs related to the exploration, development and acquisition of natural gas and oil reserves. Under this method, all such costs (productive and nonproductive), including salaries, benefits and other internal costs directly attributable to these activities are capitalized on a country by country basis and amortized over the estimated lives of the properties using the units-of-production method. These capitalized costs, less accumulated amortization and related deferred income taxes, are subject to a ceiling test that limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved natural gas and oil reserves, net of taxes, discounted at 10 percent plus the lower of cost or market value of unproved properties. Any costs in excess of the ceiling are written off as a non-cash expense. The expense may not be reversed in future periods, even though higher natural gas and oil prices may subsequently increase the ceiling. Full cost companies must use the average quoted price from the first day of each month from the previous 12 months, including the impact of derivatives qualifying as cash flow hedges, to calculate the ceiling value of their reserves.

Using the average quoted price from the first day of each month from the previous 12 months for Henry Hub natural gas of $2.83 per MMBtu and $91.48 per barrel for West Texas Intermediate oil, adjusted for market differentials, the Company s net book value of its United States natural gas and oil properties exceeded the ceiling by approximately $185.7 million (net of tax) at September 30, 2012 and resulted in a non-cash ceiling test impairment. Cash flow hedges of natural gas production in place increased the ceiling by $330.6 million at September 30, 2012. In the second quarter of 2012, the Company s net book value of its United States natural gas and oil properties exceeded the ceiling by approximately $496.4 million (net of tax) at June 30, 2012 and resulted in a non-cash ceiling test impairment. Decreases in average quoted prices from September 30, 2012 levels as well as changes in production rates, levels of reserves, capitalized costs, the evaluation of costs excluded from amortization, future development costs, service costs and taxes could result in future ceiling test impairments.

All of the Company s costs directly associated with the acquisition and evaluation of properties in New Brunswick, Canada relating to its exploration program at September 30, 2012 were unproved and did not exceed the ceiling amount. If the exploration program in Canada is unsuccessful on all or a portion of these properties, a ceiling test impairment may result in the future.

(7) EARNINGS PER SHARE

The following table presents the computation of earnings per share for the three- and nine-month periods ended September 30, 2012 and 2011:

	For the three months ended September 30,		For the nine months ended September 30,	
	2012 (Restated)	2011	2012 (Restated)	2011
Net income (loss) (in thousands)	$(54,053)	$175,173	$(351,481)	$479,236
Number of common shares:				
Weighted average outstanding	348,649,630	347,239,793	348,272,192	347,070,330
Issued upon assumed exercise of outstanding stock options		2,490,783		2,591,687
Effect of issuance of nonvested restricted common stock		268,213		229,868

Weighted average and potential dilutive outstanding[(1)]	348,649,630	349,998,789	348,272,192	349,891,885
Earnings (loss) per share:				
Basic	$(0.16)	$0.50	$(1.01)	$1.38
Diluted	$(0.16)	$0.50	$(1.01)	$1.37

(1) As we recognized a net loss for the three- and nine-months ended September 30, 2012, the unvested share-based payments and stock options were not recognized in diluted earnings per share (Diluted EPS) calculations as they would be antidilutive. Options for 1,664,232 shares and 560,848 shares of restricted stock were excluded from the calculation for the three months ended September 30, 2012 because they would have had an antidilutive effect. Options for 783,823 shares and 5,645 shares of restricted stock were excluded from the calculation for the three months ended September 30, 2011 because they would have had an antidilutive effect. Options for 1,685,398 shares and 580,227 shares of restricted stock were excluded from the calculation for the nine months ended September 30, 2012 because they would have had an antidilutive effect. Options for 811,552 shares and 7,114 shares of restricted stock were excluded from the calculation for the nine months ended September 30, 2011 because they would have had an antidilutive effect.

(8) DERIVATIVES AND RISK MANAGEMENT

The Company is exposed to volatility in market prices and basis differentials for natural gas and crude oil which impacts the predictability of its cash flows related to the sale of natural gas and oil. These risks are managed by the Company s use of certain derivative financial instruments. At September 30, 2012 and December 31, 2011, the Company s derivative financial instruments consisted of price swaps, costless-collars and basis swaps. A description of the Company s derivative financial instruments is provided below:

Fixed price swaps The Company receives a fixed price for the contract and pays a floating market price to the counterparty.

Floating price swaps The Company receives a floating market price from the counterparty and pays a fixed price.

Costless-collars Arrangements that contain a fixed floor price (put) and a fixed ceiling price (call). If the market price exceeds the call strike price or falls below the put strike price, the Company receives the fixed price and pays the market price. If the market price is between the call and the put strike price, no payments are due from either party.

Basis swaps Arrangements that guarantee a price differential for natural gas from a specified delivery point. The Company receives a payment from the counterparty if the price differential is greater than the stated terms of the contract and pays the counterparty if the price differential is less than the stated terms of the contract.

GAAP requires that all derivatives be recognized in the balance sheet as either an asset or liability and be measured at fair value. Under GAAP, certain criteria must be satisfied in order for derivative financial instruments to be classified and accounted for as either a cash flow or a fair value hedge. Accounting for qualifying hedges requires a derivative s gains and losses to be recorded either in earnings or as a component of other comprehensive income. Gains and losses on derivatives that are not elected for hedge accounting treatment or that do not meet hedge accounting requirements are recorded in earnings.

The Company utilizes counterparties for its derivative instruments that it believes are credit-worthy at the time the transactions are entered into and the Company closely monitors the credit ratings of these counterparties. Additionally, the Company performs both quantitative and qualitative assessments of these counterparties based on their credit ratings and credit default swap rates where applicable. However, the events in the financial markets in recent years demonstrate there can be no assurance that a counterparty will be able to meet its obligations to the Company.

The balance sheet classification of the assets related to derivative financial instruments are summarized below at September 30, 2012 and December 31, 2011:

	Derivative Assets			
	September 30, 2012		December 31, 2011	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
	(in thousands)			
Derivatives designated as hedging instruments:				
Fixed and floating price swaps	Hedging asset	$254,358	Hedging asset	$333,479
Costless-collars	Hedging asset	43,984	Hedging asset	179,080
Fixed and floating price swaps	Other assets	48,252	Other assets	201,081
Total derivatives designated as hedging instruments		$346,594		$713,640
Derivatives not designated as hedging instruments:				
Basis swaps	Hedging asset	$2,519	Hedging asset	$1,906
Basis swaps	Other assets	696	Other assets	1,797
Total derivatives not designated as hedging instruments		$3,215		$3,703
Total derivative assets		$349,809		$717,343

	Derivative Liabilities			
	September 30, 2012		December 31, 2011	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
	(in thousands)			
Derivatives designated as hedging instruments:				
Fixed and floating price swaps	Other current liabilities	$1,818	Other current liabilities	$11,849
Costless-collars	Other current liabilities		Other current liabilities	209
Total derivatives designated as hedging instruments		$1,818		$12,058
Derivatives not designated as hedging instruments:				
Basis swaps	Other current liabilities	$223	Other current liabilities	$400
Basis swaps	Other long-term liabilities	15	Other long-term liabilities	55
Total derivatives not designated as hedging instruments		$238		$455
Total derivative liabilities		$2,056		$12,513

Cash Flow Hedges

The reporting of gains and losses on cash flow derivative hedging instruments depends on whether the gains or losses are effective at offsetting changes in the cash flows of the hedged item. The effective portion of the gains and losses on the derivative hedging instruments are recorded in other comprehensive income until recognized in earnings during the period that the hedged transaction takes place. The ineffective portion of the gains and losses from the derivative hedging instrument is recognized in earnings immediately.

As of September 30, 2012, the Company had cash flow hedges on the following volumes of natural gas production (in Bcf):

Year	Fixed price swaps	Costless-collars
2012	46.7	20.2
2013	185.6	

As of September 30, 2012, the Company recorded a net gain in accumulated other comprehensive income related to its hedging activities of $206.7 million. This amount is net of a deferred income tax liability recorded as of September 30, 2012 of $135.6 million. The amount recorded in accumulated other comprehensive income will be relieved over time and recognized in the statement of operations as the physical transactions being hedged occur. Assuming the market prices of natural gas futures as of September 30, 2012 remain unchanged, the Company would expect to transfer an aggregate after-tax net gain of $177.9 million from accumulated other comprehensive income to earnings during the next 12 months. Gains or losses from derivative instruments designated as cash flow hedges are reflected as adjustments to gas sales in the unaudited condensed consolidated statements of operations. Volatility in earnings and other comprehensive income may occur in the future as a result of the Company s derivative activities.

The following tables summarize the before tax effect of all cash flow hedges on the unaudited condensed consolidated financial statements for the three- and nine-month periods ended September 30, 2012 and 2011:

	Gain (Loss) Recognized in Other Comprehensive Income (Effective Portion)			
	For the three months ended September 30,		For the nine months ended September 30,	
Derivative Instrument	2012	2011	2012	2011
	(in thousands)			
Fixed price swaps	$(55,369)	$203,783	$116,089	$360,362
Costless-collars	$(3,487)	$418,315	$40,644	$65,144

	Classification of Gain Reclassified from Accumulated Other Comprehensive Income	Gain Reclassified from Accumulated Other Comprehensive Income into Earnings (Effective Portion)	
		For the three months ended	For the nine months ended

Derivative Instrument	into Earnings (Effective Portion)	September 30, 2012	2011	September 30, 2012	2011
		(in thousands)			
Fixed price swaps	Gas Sales	[illegible]	[illegible]	$337,994	$145,662
Costless-collars	Gas Sales	[illegible]	[illegible]	$175,531	$40,978

Derivative Instrument	Classification of Gain (Loss) Recognized in Earnings (Ineffective Portion)	Gain (Loss) Recognized in Earnings (Ineffective Portion) For the three months ended September 30, 2012	2011	For the nine months ended September 30, 2012	2011
		(in thousands)			
Fixed price swaps	Gas Sales	[illegible]	$(1,754)	$1,831	$(755)
Costless-collars	Gas Sales	[illegible]	$(326)	$167	$252

Fair Value Hedges

For fair value hedges, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item are recognized in earnings immediately. As of September 30, 2012 and December 31, 2011, the Company had no material fair value hedges.

Other Derivative Contracts

Although the Company s basis swaps meet the objective of managing commodity price exposure, these trades are typically not entered into concurrent with the Company s derivative instruments that qualify as cash flow hedges and therefore do not generally qualify for hedge accounting. Basis swap derivative instruments that do not qualify as cash flow hedges are recorded on the balance sheet at their fair values under hedging assets, other assets and other current liabilities, as applicable, and all realized and unrealized gains and losses related to these contracts are recognized immediately in the unaudited condensed consolidated statements of operations as a component of gas sales.

As of September 30, 2012, the Company had basis swaps on natural gas production that did not qualify for hedge accounting treatment of 9.2 Bcf, 30.1 Bcf and 9.1 Bcf in 2012, 2013, and 2014, respectively.

The following table summarizes the before tax effect of basis swaps that did not qualify for hedge accounting on the unaudited condensed consolidated statements of operations for the three- and nine-month periods ended September 30, 2012 and 2011:

		Unrealized Loss Recognized in Earnings			
		For the three months ended September 30,		For the nine months ended September 30,	
Derivative Instrument	Income Statement Classification of Unrealized Loss	2012	2011	2012	2011
		(in thousands)			
Basis swaps	Gas Sales	$(1,275)	$(1,967)	$(270)	$(159)

		Realized Gain (Loss) Recognized in Earnings			
		For the three months ended September 30,		For the nine months ended September 30,	
Derivative Instrument	Income Statement Classification of Realized Gain (Loss)	2012	2011	2012	2011
		(in thousands)			
Basis swaps	Gas Sales	$624	$(22)	$1,773	$(2,377)

17

(9) FAIR VALUE MEASUREMENTS

The carrying amounts and estimated fair values of the Company s financial instruments as of September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Cash and cash equivalents	$ 18,560	$ 18,560	$ 15,627	$ 15,627
Restricted cash	$ 127,074	$ 127,074	$	$
Unsecured revolving credit facility	$ 26,500	$ 26,500	$ 671,500	$ 671,500
Senior notes	$ 1,670,042	$ 1,878,983	$ 671,800	$ 773,578
Derivative instruments	$ 347,753	$ 347,753	$ 704,830	$ 704,830

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, other current assets and current liabilities on the condensed consolidated balance sheets approximate fair value because of their short-term nature. For debt and derivative instruments, the following methods and assumptions were used to estimate fair value:

Debt: The fair values of the Company s senior notes were based on the market for the Company s publicly-traded debt as determined based on yield of the Company s 7.5% Senior Notes due 2018, which was 3.1% at September 30, 2012 and 4.6% at December 31, 2011, and its 4.10% Senior Notes due 2022, which was 3.4% at September 30, 2012. The carrying value of the borrowings under the Company s unsecured revolving credit facility at September 30, 2012 and December 31, 2011, approximate fair value because the interest rate is variable and reflective of market rates. As such, the Company considers the fair value of its debt to be a Level 2 measurement on the fair value hierarchy.

Derivative Instruments: The fair value of all derivative instruments is the amount at which the instrument could be exchanged currently between willing parties. The amounts are based on quoted market prices, best estimates obtained from counterparties and an option pricing model, when necessary, for price option contracts.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. As presented in the tables below, this hierarchy consists of three broad levels:

Level 1 valuations - Consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority.

Level 2 valuations - Consist of quoted market information for the calculation of fair market value.

Level 3 valuations - Consist of internal estimates and have the lowest priority.

Pursuant to GAAP, the Company has classified its derivatives into these levels depending upon the data utilized to determine their fair values. The Company s Level 2 fair value measurements include fixed-price and floating-price swaps and are estimated using internal discounted cash flow calculations using the NYMEX futures index. The Company s Level 3 fair value measurements include costless-collars and basis swaps. The Company s costless-collars are valued using the Black-Scholes model, an industry standard option valuation model, and takes into account inputs such as contract terms, including maturity, and market parameters, including assumptions of the NYMEX futures index, interest rates, volatility and credit worthiness. The Company s basis swaps are estimated using internal discounted cash flow calculations based upon forward commodity price curves.

The accounting group, reporting to the Vice President and Controller, is responsible for determining the Company s Level 3 fair value measurements. Inputs to the Black-Scholes model, including the volatility input, which is the significant unobservable input for Level 3 fair value measurements, are obtained from a third-party pricing source, with independent verification of most significant inputs on a monthly basis. An increase (decrease) in volatility would result in an increase (decrease) in fair value measurement, respectively.

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

	September 30, 2012				
	Fair Value Measurements Using:				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets (Liabilities) at Fair Value	
Derivative assets	$	$ 302,610	$ 47,199	$ 349,809	
Derivative liabilities		(1,818)	(238)	(2,056)	
Total	$	$ 300,792	$ 46,961	$ 347,753	

	December 31, 2011			
	Fair Value Measurements Using:			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets (Liabilities) at Fair Value
Derivative assets	$	$ 534,560	$ 182,783	$ 717,343
Derivative liabilities		(11,849)	(664)	(12,513)
Total	$	$ 522,711	$ 182,119	$ 704,830

The table below presents reconciliations for the change in net fair value of derivative assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three- and nine-month periods ended September 30, 2012 and September 30, 2011. The fair values of Level 3 derivative instruments are estimated using proprietary valuation models that utilize both market observable and unobservable parameters. Level 3 instruments presented in the table consist of net derivatives valued using pricing models incorporating assumptions that, in the Company s judgment, reflect the assumptions a reasonable marketplace participant would have used at September 30, 2012 and September 30, 2011.

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Balance at beginning of period	$106,222	$89,395	$182,119	$97,677
Total gains or losses (realized/unrealized):				
Included in earnings	53,465	11,102	177,201	38,694
Included in other comprehensive income	(57,614)	35,223	(135,055)	23,913
Purchases, issuances, and settlements:				
Purchases				
Issuances				
Settlements	(55,112)	(13,895)	(177,304)	(38,601)
Transfers into/out of Level 3				142
Balance at end of period	$46,961	$121,825	$46,961	$121,825
Change in unrealized gains included in earnings relating to derivatives still held as of September 30	$(1,647)	$(2,793)	$(103)	$93

19

(10) DEBT

The components of debt as of September 30, 2012 and December 31, 2011 consisted of the following:

	September 30, 2012	December 31, 2011
	(in thousands)	
Short-term debt:		
7.15% Senior Notes due 2018	$ 1,200	$ 1,200
Total short-term debt	1,200	1,200
Long-term debt:		
Variable rate (2.200% and 2.276% at September 30, 2012 and December 31, 2011, respectively) unsecured revolving credit facility, expires February 2016	26,500	