

SWIFT ENERGY CO
Form 10-Q
August 05, 2010

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

Form 10-Q

(X) Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2010
Commission File Number 1-8754

SWIFT ENERGY COMPANY
(Exact Name of Registrant as Specified in Its Charter)

Texas
(State of Incorporation)

20-3940661
(I.R.S. Employer Identification No.)

16825 Northchase Drive, Suite 400
Houston, Texas 77060
(281) 874-2700

(Address and telephone number of principal executive offices)
Securities registered pursuant to Section 12(b) of the Act:

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YesNo

Indicate the number of shares outstanding of each of the Issuer's classes
of common stock, as of the latest practicable date.

Common Stock
(\$0.01 Par Value)
(Class of Stock)

37,878,628 Shares
(Outstanding at July 31, 2010)

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SWIFT ENERGY COMPANY

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010
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Condensed Consolidated Balance Sheets
 Swift Energy Company and Subsidiaries
 (in thousands, except share amounts)

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	\$43,484	\$38,469
Accounts receivable	40,022	54,273
Deferred tax assets	4,468	3,171
Other current assets	18,514	12,123
Current assets held for sale	564	564
Total Current Assets	107,052	108,600
Property and Equipment:		
Oil and gas properties, using full-cost accounting	3,689,276	3,530,110
Less – Accumulated depreciation, depletion, and amortization	(2,292,193)	(2,214,146)
Property and Equipment, Net	1,397,083	1,315,964
Other Long-Term Assets	9,710	10,201
Total Assets	\$1,513,845	\$1,434,765
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$62,748	\$60,823
Accrued capital costs	47,236	33,199
Accrued interest	10,982	3,745
Undistributed oil and gas revenues	5,775	5,837
Total Current Liabilities	126,741	103,604
Long-Term Debt	471,508	471,397
Deferred Income Taxes	143,444	123,577
Asset Retirement Obligation	57,230	55,298
Other Long-Term Liabilities	1,871	1,990
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized, none outstanding	---	---
Common stock, \$.01 par value, 85,000,000 shares authorized, 38,316,362 and 37,887,126 shares issued, and 37,876,893 and 37,456,603 shares outstanding, respectively	383	379
Additional paid-in capital	559,303	551,606
Treasury stock held, at cost, 439,469 and 430,523 shares, respectively	(9,713)	(9,221)
Retained earnings	163,022	136,358
Accumulated other comprehensive income (loss), net of income tax	56	(223)

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Total Stockholders' Equity	713,051	678,899
Total Liabilities and Stockholders' Equity	\$1,513,845	\$1,434,765

See accompanying Notes to Consolidated Financial Statements.

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Condensed Consolidated Statements of Operations (Unaudited)
 Swift Energy Company and Subsidiaries
 (in thousands, except share amounts)

	Three Months Ended		Six Months Ended	
	06/30/10	06/30/09	06/30/10	06/30/09
Revenues:				
Oil and gas sales	\$ 105,051	\$ 82,783	\$ 215,076	\$ 159,201
Price-risk management and other, net	1,849	138	1,670	79
Total Revenues	106,900	82,921	216,746	159,280
Costs and Expenses:				
General and administrative, net	8,037	7,581	17,288	16,000
Depreciation, depletion, and amortization	39,029	40,365	77,303	84,299
Accretion of asset retirement obligation	975	717	1,929	1,419
Lease operating cost	19,936	18,818	38,584	38,626
Severance and other taxes	11,641	9,908	23,213	18,594
Interest expense, net	8,214	7,813	16,540	15,280
Write-down of oil and gas properties	---	---	---	79,312
Total Costs and Expenses	87,832	85,202	174,857	253,530
Income (Loss) from Continuing Operations Before Income Taxes				
	19,068	(2,281)	41,889	(94,250)
Provision (Benefit) for Income Taxes	6,555	(71)	15,136	(33,037)
Income (Loss) from Continuing Operations	12,513	(2,210)	26,753	(61,213)
Loss from Discontinued Operations, net of taxes	(54)	(57)	(89)	(183)
Net Income (Loss)	\$ 12,459	\$ (2,267)	\$ 26,664	\$ (61,396)
Per Share Amounts-				
Basic: Income (Loss) from Continuing Operations	\$ 0.32	\$ (0.07)	\$ 0.70	\$ (1.97)
Loss from Discontinued Operations, net of taxes	(0.00)	(0.00)	(0.00)	(0.01)
Net Income (Loss)	\$ 0.32	\$ (0.07)	\$ 0.69	\$ (1.97)
Diluted: Income (Loss) from Continuing Operations	\$ 0.32	\$ (0.07)	\$ 0.69	\$ (1.97)
Loss from Discontinued Operations, net of taxes	(0.00)	(0.00)	(0.00)	(0.01)
Net Income (Loss)	\$ 0.32	\$ (0.07)	\$ 0.69	\$ (1.97)
Weighted Average Shares Outstanding	37,845	31,175	37,749	31,103

See accompanying Notes to Consolidated Financial Statements.

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Condensed Consolidated Statements of Stockholders' Equity
 Swift Energy Company and Subsidiaries
 (in thousands, except share amounts)

	Common Stock (1)	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2008	\$313	\$435,307	\$(10,431)	\$175,688	\$ -	\$600,877
Stock issued for benefit plans (94,023 shares)	-	(716)	2,094	-	-	1,378
Stock options exercised (26,056 shares)	-	326	-	-	-	326
Public stock offering (6,210,000 shares)	62	108,689	-	-	-	108,751
Purchase of treasury shares (56,662 shares)	-	-	(884)	-	-	(884)
Tax benefits from stock compensation	-	(4,041)	-	-	-	(4,041)
Employee stock purchase plan (50,690 shares)	1	724	-	-	-	725
Issuance of restricted stock (263,908 shares)	3	(3)	-	-	-	-
Amortization of stock compensation	-	11,320	-	-	-	11,320
Net loss	-	-	-	(39,330)	-	(39,330)
Other comprehensive loss	-	-	-	-	(223)	(223)
Total comprehensive loss						(39,553)
Balance, December 31, 2009	\$379	\$551,606	\$(9,221)	\$136,358	\$ (223)	\$678,899
Stock issued for benefit plans (59,335 shares) (2)	-	242	1,271	-	-	1,513
Stock options exercised (58,798 shares) (2)	-	824	-	-	-	824
Purchase of treasury shares (68,281 shares) (2)	-	-	(1,763)	-	-	(1,763)
Employee stock purchase plan (66,564 shares) (2)	1	950	-	-	-	951
Issuance of restricted stock (303,874 shares) (2)	3	(3)	-	-	-	-
Amortization of stock compensation (2)	-	5,684	-	-	-	5,684
Net Income (2)	-	-	-	26,664	-	26,664
Other comprehensive income (2)	-	-	-	-	279	279
Total comprehensive income (2)						26,943
Balance, June 30, 2010 (2)	\$383	\$559,303	\$(9,713)	\$163,022	\$ 56	\$713,051

(1) \$.01 par value.

(2) Unaudited

See accompanying Notes to Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)
Swift Energy Company and Subsidiaries

(in thousands)	Six Months Ended June	
	2010	30, 2009
Cash Flows from Operating Activities:		
Net income (loss)	\$26,664	\$(61,396)
Plus loss from discontinued operations, net of taxes	89	183
Adjustments to reconcile net income (loss) to net cash provided by operation activities -		
Depreciation, depletion, and amortization	77,303	84,299
Write-down of oil and gas properties	---	79,312
Accretion of asset retirement obligation	1,929	1,419
Deferred income taxes	20,502	(29,905)
Stock-based compensation expense	4,905	4,645
Other	(1,741)	10,162
Change in assets and liabilities-		
Decrease in accounts receivable	2,951	2,526
Decrease in accounts payable and accrued liabilities	(10,780)	(7,406)
Decrease in income taxes payable	(41)	(241)
Increase (decrease) in accrued interest	7,237	(25)
Cash provided by operating activities – continuing operations	129,018	83,573
Cash provided by (used in) operating activities – discontinued operations	4	(337)
Net Cash Provided by Operating Activities	129,022	83,236
Cash Flows from Investing Activities:		
Additions to property and equipment	(129,116)	(135,801)
Proceeds from the sale of property and equipment	97	52
Cash used in investing activities – continuing operations	(129,019)	(135,749)
Cash provided by investing activities – discontinued operations	5,000	5,000
Net Cash Used in Investing Activities	(124,019)	(130,749)
Cash Flows from Financing Activities:		
Net proceeds from bank borrowings	---	47,300
Net proceeds from issuances of common stock	1,775	818
Purchase of treasury shares	(1,763)	(657)
Cash provided by financing activities – continuing operations	12	47,461
Cash provided by financing activities – discontinued operations	---	---
Net Cash Provided by financing activities	12	47,461
Net Increase (decrease) in Cash and Cash Equivalents	5,015	\$(52)
Cash and Cash Equivalents at Beginning of Period	38,469	283
Cash and Cash Equivalents at End of Period	\$43,484	\$231
Supplemental Disclosures of Cash Flows Information:		
Cash paid during period for interest, net of amounts capitalized	\$8,725	\$14,579

Cash paid during period for income taxes	\$168	\$229
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See accompanying Notes to Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements
Swift Energy Company and Subsidiaries

(1) General Information

The condensed consolidated financial statements included herein have been prepared by Swift Energy Company (“Swift Energy” or the “Company”) and reflect necessary adjustments, all of which were of a recurring nature unless otherwise disclosed herein, and are in the opinion of our management necessary for a fair presentation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. We believe that the disclosures presented are adequate to allow the information presented not to be misleading. The condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 as filed with the Securities and Exchange Commission.

(2) Summary of Significant Accounting Policies

Principles of Consolidation. The accompanying condensed consolidated financial statements include the accounts of Swift Energy and its wholly owned subsidiaries, which are engaged in the exploration, development, acquisition, and operation of oil and natural gas properties, with a focus on inland waters and onshore oil and natural gas reserves in Louisiana and Texas. Our undivided interests in gas processing plants are accounted for using the proportionate consolidation method, whereby our proportionate share of each entity’s assets, liabilities, revenues, and expenses are included in the appropriate classifications in the accompanying condensed consolidated financial statements. Intercompany balances and transactions have been eliminated in preparing the accompanying condensed consolidated financial statements.

Discontinued Operations. Unless otherwise indicated, information presented in the notes to the financial statements relates only to Swift Energy’s continuing operations. Information related to discontinued operations is included in Note 6 and in some instances, where appropriate, is included as a separate disclosure within the individual footnotes.

Subsequent Events. We have evaluated subsequent events of our consolidated financial statements. There were no material subsequent events requiring additional disclosure in or amendments to these financial statements.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires us to make estimates and assumptions that affect the reported amount of certain assets and liabilities and the reported amounts of certain revenues and expenses during each reporting period. We believe our estimates and assumptions are reasonable; however, such estimates and assumptions are subject to a number of risks and uncertainties that may cause actual results to differ materially from such estimates. Significant estimates and assumptions underlying these financial statements include:

- the estimated quantities of proved oil and natural gas reserves used to compute depletion of oil and natural gas properties and the related present value of estimated future net cash flows therefrom,
 - estimates related to the collectability of accounts receivable and the credit worthiness of our customers,
- estimates of the counterparty bank risk related to letters of credit that our customers may have issued on our behalf,
 - estimates of future costs to develop and produce reserves,
 - accruals related to oil and gas revenues, capital expenditures and lease operating expenses,
- estimates of insurance recoveries related to property damage, and the solvency of insurance providers,
 - estimates in the calculation of stock compensation expense,
 - estimates of our ownership in properties prior to final division of interest determination,

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- the estimated future cost and timing of asset retirement obligations,
 - estimates made in our income tax calculations, and
 - estimates in the calculation of the fair value of hedging assets.

While we are not aware of any material revisions to any of our estimates, there will likely be future revisions to our estimates resulting from matters such as new accounting pronouncements, changes in ownership interests, payouts, joint venture audits, re-allocations by purchasers or pipelines, or other corrections and adjustments common in the oil and gas industry, many of which require retroactive application. These types of adjustments cannot be currently estimated and will be recorded in the period during which the adjustment occurs.

Property and Equipment. We follow the “full-cost” method of accounting for oil and natural gas property and equipment costs. Under this method of accounting, all productive and nonproductive costs incurred in the exploration, development, and acquisition of oil and natural gas reserves are capitalized. Such costs may be incurred both prior to and after the acquisition of a property and include lease acquisitions, geological and geophysical services, drilling, completion, and equipment. Internal costs incurred that are directly identified with exploration, development, and acquisition activities undertaken by us for our own account, and which are not related to production, general corporate overhead, or similar activities, are also capitalized. For the six months ended June 30, 2010 and 2009, such internal costs capitalized totaled \$11.9 million and \$12.1 million, respectively. Interest costs are also capitalized to unproved oil and natural gas properties. For the six months ended June 30, 2010 and 2009, capitalized interest on unproved properties totaled \$3.7 million and \$3.0 million, respectively. Interest not capitalized and general and administrative costs related to production and general corporate overhead are expensed as incurred.

The “Property and Equipment” balances on the accompanying condensed consolidated balance sheets are summarized for presentation purposes. The following is a detailed breakout of our “Property and Equipment” balances.

Property and Equipment (in thousands)	June 30, 2010	December 31, 2009
Oil and gas properties, using full-cost accounting		
Proved properties	\$3,575,208	\$3,421,340
Unproved properties	77,097	71,640
Furniture, fixtures, and other equipment	36,971	37,130
Less – Accumulated depreciation, depletion, and amortization	(2,292,193)	(2,214,146)
Property and Equipment, Net	\$1,397,083	\$1,315,964

No gains or losses are recognized upon the sale or disposition of oil and natural gas properties, except in transactions involving a significant amount of reserves or where the proceeds from the sale of oil and natural gas properties would significantly alter the relationship between capitalized costs and proved reserves of oil and natural gas attributable to a cost center. Internal costs associated with selling properties are expensed as incurred.

Future development costs are estimated property-by-property based on current economic conditions and are amortized to expense as our capitalized oil and natural gas property costs are amortized.

We compute the provision for depreciation, depletion, and amortization (“DD&A”) of oil and natural gas properties using the unit-of-production method. Under this method, we compute the provision by multiplying the total unamortized costs of oil and natural gas properties—including future development costs, gas processing facilities, and both capitalized asset retirement obligations and undiscounted abandonment costs of wells to be drilled, net of salvage values, but excluding costs of unproved properties—by an overall rate determined by dividing the physical units of oil and natural gas produced during the period by the total estimated units of proved oil and natural gas reserves at the beginning of the period. This calculation is done on a country-by-country basis, and the period over which we will amortize these properties is dependent on our production from these properties in future years. Furniture, fixtures, and other equipment are recorded at cost and are depreciated by the straight-line method at rates based on the estimated useful lives of the property, which range between 2 and 20 years. Repairs and maintenance are charged to expense as incurred. Renewals and betterments are capitalized.

Geological and geophysical (“G&G”) costs incurred on developed properties are recorded in “Proved properties” and therefore subject to amortization. G&G costs incurred that are directly associated with specific unproved properties are capitalized in “Unproved properties” and evaluated as part of the total capitalized costs associated with a prospect. The cost of unproved properties not being amortized is assessed quarterly, on a property-by-property basis, to

determine whether such properties have been impaired. In determining whether such costs should be impaired, we evaluate current drilling results, lease expiration dates, current oil and gas industry conditions, international economic conditions, capital availability, and available geological and geophysical information. Any impairment assessed is added to the cost of proved properties being amortized.

Full-Cost Ceiling Test. At the end of each quarterly reporting period, the unamortized cost of oil and natural gas properties (including natural gas processing facilities, capitalized asset retirement obligations, net of related salvage values and deferred income taxes, and excluding the recognized asset retirement obligation liability) is limited to the sum of the estimated future net revenues from proved properties (excluding cash outflows from recognized asset retirement obligations, including future development and abandonment costs of wells to be drilled, using the preceding 12-months' average price based on closing prices on the first day of each month, adjusted for the effects of hedging, discounted at 10%, and the lower of cost or fair value of unproved properties) adjusted for related income tax effects ("Ceiling Test"). Our hedges at June 30, 2010 did not materially affect this calculation. This calculation is done on a country-by-country basis.

The calculation of the Ceiling Test and provision for depreciation, depletion, and amortization (“DD&A”) is based on estimates of proved reserves. There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting the future rates of production, timing, and plan of development. The accuracy of any reserves estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, testing, and production subsequent to the date of the estimate may justify revision of such estimates. Accordingly, reserves estimates are often different from the quantities of oil and natural gas that are ultimately recovered.

As a result of low oil and natural gas prices at March 31, 2009, we reported a non-cash write-down on a before-tax basis of \$79.3 million on our oil and natural gas properties.

Given the volatility of oil and natural gas prices, it is reasonably possible that our estimate of discounted future net cash flows from proved oil and natural gas reserves could continue to change in the near term. If oil and natural gas prices decline from our prices used in the Ceiling Test, it is possible that additional non-cash write-downs of oil and natural gas properties could occur in the future. If we have significant declines in our oil and natural gas reserves volumes, which also reduce our estimate of discounted future net cash flows from proved oil and natural gas reserves, additional non-cash write-downs of our oil and natural gas properties could occur in the future. We cannot control and cannot predict what future prices for oil and natural gas will be, thus we cannot estimate the amount or timing of any potential future non-cash write-down of our oil and natural gas properties if a decrease in oil and/or natural gas prices were to occur.

Revenue Recognition. Oil and gas revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and if collectability of the revenue is probable. Swift Energy uses the entitlement method of accounting in which we recognize our ownership interest in production as revenue. If our sales exceed our ownership share of production, the natural gas balancing payables are reported in “Accounts payable and accrued liabilities” on the accompanying consolidated balance sheets. Natural gas balancing receivables are reported in “Other current assets” on the accompanying balance sheet when our ownership share of production exceeds sales. As of June 30, 2010, we did not have any material natural gas imbalances.

Reclassification of Prior Period Balances. Certain reclassifications have been made to prior period amounts to conform to the current year presentation.

Fair Value of Financial Instruments. Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, bank borrowings, and senior notes. The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to the highly liquid or short-term nature of these instruments. The fair values of the bank borrowings approximate the carrying amounts as of June 30, 2010 and December 31, 2009, and were determined based upon variable interest rates currently available to us for borrowings with similar terms. Based upon quoted market prices as of June 30, 2010 and December 31, 2009, the fair value of our senior notes due 2017, were \$238.8 million, or 96% of face value, and 239.1 million, or 96% of face value, respectively. Based upon quoted market prices as of June 30, 2010 and December 31, 2009, the fair values of our senior notes due 2020, which were issued in November 2009, were \$224.2 million, or 99% of face value and 234.0 million, or 104% of face value, respectively. The carrying value of our senior notes due 2017 was \$250.0 million at June 30, 2010 and December 31, 2009, while the carrying value of our senior notes due 2020 was \$221.5 million and \$221.4 million at June 30, 2010 and December 31, 2009, respectively.

Accounts Receivable. We assess the collectability of accounts receivable, and based on our judgment, we accrue a reserve when we believe a receivable may not be collected. At June 30, 2010 and December 31, 2009, we had an allowance for doubtful accounts of approximately \$0.1 million. The allowance for doubtful accounts has been deducted from the total “Accounts receivable” balance on the accompanying condensed consolidated balance sheets.

At June 30, 2010 our "Accounts Receivable" balance includes \$33.3 million for oil and gas sales, \$2.7 million for joint interest owners and \$4.0 million for other receivables. At December 31, 2009 our "Accounts Receivable" balance includes \$36.4 million for oil and gas sales, \$2.6 million for joint interest owners and \$15.3 million for other receivables.

Insurance Claims. In 2008, we filed insurance claims related to 2008 Hurricanes Gustav and Ike. In April 2009, we settled our marine insurance claim relating to Hurricane Gustav for a net amount after deductible of \$6.8 million, and in September 2009 settled our onshore claim relating to Hurricane Ike for a net amount after deductible of \$0.8 million. Both of these reimbursements related to both capital costs and lease operating expense, and we have no additional hurricane related claims outstanding.

We have several open insurance claims filed in the ordinary course of business, none of which are material at the present time.

Price-Risk Management Activities. The Company follows FASB ASC 815-10, which requires that changes in the derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met. The guidance also establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) is recorded in the balance sheet as either an asset or a liability measured at its fair value. Hedge accounting for a qualifying hedge allows the gains and losses on derivatives to offset related results on the hedged item in the statement of operations and requires that a company formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. Changes in the fair value of derivatives that do not meet the criteria for hedge accounting, and the ineffective portion of the hedge, are recognized currently in income.

We have a price-risk management policy to use derivative instruments to protect against declines in oil and natural gas prices, mainly through the purchase of price floors and collars. During the second quarter of 2010 and 2009, we recognized a net gain of \$1.5 million and a net loss of less than \$0.1 million, respectively, relating to our derivative activities. During the first six months of 2010 and 2009, we recognized a net gain of \$1.0 million and a net loss of less than \$0.1 million, respectively, relating to our derivative activities. This activity is recorded in "Price-risk management and other, net" on the accompanying condensed consolidated statements of operations. Had these losses been recognized in the oil and gas sales account they would not materially change our per unit sales prices received. At June 30, 2010, the Company had recorded less than \$0.1 million, net of taxes of less than \$0.1 million, as derivative gains in "Accumulated other comprehensive loss, net of income tax" on the accompanying consolidated balance sheet. This amount represents the change in fair value for the effective portion of our hedging transactions that qualified as cash flow hedges. The ineffectiveness reported in "Price-risk management and other, net" at June 30, 2010 and 2009 was not material. All amounts currently held in "Accumulated other comprehensive loss, net of income tax" will be realized within the next three months when the forecasted sale of hedged production occurs.

At June 30, 2010, we had natural gas price floors in effect for the contract months of July through August 2010 that cover natural gas production of 1,725,000 MMBtu from July through August 2010 with strike prices ranging between \$4.60 and \$4.95. We also had oil price floors in effect for the contract month of July 2010 that cover oil production of 45,000 Boe for July 2010 with a strike price of \$79.50.

When we entered into these transactions discussed above, they were designated as a hedge of the variability in cash flows associated with the forecasted sale of oil and natural gas production. Changes in the fair value of a hedge that is highly effective and is designated and documented and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in "Accumulated other comprehensive loss, net of income tax." When the hedged transactions are recorded upon the actual sale of the oil and natural gas, these gains or losses are reclassified from "Accumulated other comprehensive income (loss), net of income tax" on the accompanying condensed consolidated balance sheet and recorded in "Price-risk management and other, net" on the accompanying consolidated statements of operations. The fair values of our derivatives are computed using the Black-Scholes-Merton option pricing model and are periodically verified against quotes from brokers. The fair value of these instruments at June 30, 2010 and December 31, 2009, was \$0.5 million and \$0.8 million, respectively and was recognized on the accompanying condensed consolidated balance sheet in "Other current assets." At June 30, 2010, we had \$0.7 million in receivables for concluded natural gas

hedges covering July 2010 production and oil hedges covering June 2010 production which were recognized on the accompanying balance sheet in "Other Receivables" and were subsequently collected in July 2010.

Supervision Fees. Consistent with industry practice, we charge a supervision fee to the wells we operate including our wells in which we own up to a 100% working interest. Supervision fees, to the extent they do not exceed actual costs incurred, are recorded as a reduction to "General and administrative, net." Our supervision fees are based on COPAS guidelines. The amount of supervision fees charged in the first six months of 2010 and 2009 did not exceed our actual costs incurred. The total amount of supervision fees charged to the wells we operate was \$6.0 million and \$5.7 million in the first six months of 2010 and 2009, respectively.

Inventories. Inventories consist primarily of tubulars and other equipment that we expect to place in service in production operations. Inventories carried at cost (weighted average method) are included in “Other current assets” on the accompanying condensed consolidated balance sheets totaling \$13.0 million at June 30, 2010 and \$10.0 million at December 31, 2009.

Income Taxes. Under guidance contained in FASB ASC 740-10, deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities, given the provisions of the enacted tax laws.

We follow the recognition and disclosure provisions under guidance contained in FASB ASC 740-10-25. Under this guidance, tax positions are evaluated for recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured as the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Our current balance of unrecognized tax benefits is \$1.0 million. If recognized, these tax benefits would fully impact our effective tax rate.

Our policy is to record interest and penalties relating to income taxes in income tax expense. As of June 30, 2010, we did not have any amount accrued for interest and penalties on uncertain tax positions.

Our U.S. Federal income tax returns for 2002 forward, our Louisiana income tax returns from 1998 forward, our New Zealand income tax returns after 2003, and our Texas franchise tax returns after 2006 remain subject to examination by the taxing authorities. There are no material unresolved items related to periods previously audited by these taxing authorities. No other state returns are significant to our financial position.

Accounts Payable and Accrued Liabilities. Included in “Accounts payable and accrued liabilities,” on the accompanying condensed consolidated balance sheets, at June 30, 2010 and December 31, 2009 are liabilities of approximately \$2.2 million and \$7.5 million, respectively, which represent the amounts by which checks issued, but not presented by vendors to the Company’s banks for collection, exceeded balances in the applicable disbursement bank accounts.

Cash and Cash Equivalents. We consider all highly liquid instruments with an initial maturity of three months or less to be cash equivalents.

Restricted Cash. These balances primarily include amounts held in escrow accounts to satisfy domestic plugging and abandonment obligations. As of June 30, 2010 and December 31, 2009 these assets include approximately \$1.3 million in other long-term assets on the balance sheet. These amounts are restricted as to their current use, and will be released when we have satisfied all plugging and abandonment obligations in certain fields.

Accumulated Other Comprehensive Income (Loss), Net of Income Tax. We follow the guidance contained in FASB ASC 220-10, which establishes standards for reporting comprehensive income. In addition to net income, comprehensive income or loss includes all changes to equity during a period, except those resulting from investments and distributions to the owners of the Company. At June 30, 2010, the Company had recorded less than \$0.1 million, net of taxes of less than \$0.1 million, as derivative gains in “Accumulated other comprehensive income (loss), net of income tax” on the accompanying consolidated balance sheet. The components of accumulated other comprehensive income and related tax effects for 2010 were as follows (in thousands):

	Gross Value	Tax Effect	Net of Tax Value
Other comprehensive loss at December 31, 2009	\$(354)	\$131	\$(223)

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Change in fair value of cash flow hedges	1,313	(485)	828
Effect of cash flow hedges settled during the period	(870)	321	(549
Other comprehensive income at June 30, 2010	\$89	\$(33)	\$56

Total comprehensive income (loss) was \$11.6 million and (\$2.5) million for the second quarters of 2010 and 2009, respectively. Total comprehensive income (loss) was \$26.9 million and (\$61.6) million for the six months of 2010 and 2009, respectively.

Asset Retirement Obligation. We record these obligations in accordance with the guidance contained in FASB ASC 410-20. This guidance requires entities to record the fair value of a liability for legal obligations associated with the retirement obligations of tangible long-lived assets in the period in which it is incurred. When the liability is initially recorded, the carrying amount of the related long-lived asset is increased. The liability is discounted from the expected date of abandonment. Over time, accretion of the liability is recognized each period, and the capitalized cost is depreciated on a unit-of-production basis over the estimated oil and natural gas reserves of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement which is included in the full cost balance. This guidance requires us to record a liability for the fair value of our dismantlement and abandonment costs, excluding salvage values.

The following provides a roll-forward of our asset retirement obligation:

(in thousands)	2010	2009
Asset Retirement Obligation recorded as of January 1	\$64,236	\$48,785
Accretion expense	1,929	1,420
Liabilities incurred for new wells and facilities construction	524	3,234
Reductions due to sold and abandoned wells	(75)	(504)
Revisions in estimated cash flows	---	306
Asset Retirement Obligation as of June 30	\$66,614	\$53,241

At June 30, 2010 and December 31, 2009, approximately \$9.4 million and \$8.9 million, respectively, of our asset retirement obligation is classified as a current liability in “Accounts payable and accrued liabilities” on the accompanying condensed consolidated balance sheets.

Public Stock Offering. In August 2009, we issued 6.21 million shares of our common stock in an underwritten public offering at a price of \$18.50 per share. The gross proceeds from these sales were approximately \$114.9 million, before deducting underwriting commissions and issuance costs totaling \$6.1 million.

New Accounting Pronouncements. In January 2010, the FASB issued ASU 2010-03 to amend oil and gas reserve accounting and disclosure guidance that aligns the oil and gas reserve estimation and disclosure requirements of Topic 932 (“Extractive Industries – Oil and Gas”) with the requirements of SEC release 33-8995. This release is effective for financial statements issued on or after January 1, 2010. We have adopted this guidance for all reporting periods ending on or after December 31, 2009. This release changes the accounting and disclosure requirements surrounding oil and natural gas reserves and is intended to modernize and update the oil and gas disclosure requirements, to align them with current industry practices and to adapt to changes in technology. The most significant changes include:

- Changes to prices used in reserves calculations, for use in both disclosures and accounting impairment tests. Prices will no longer be based on a single-day, period-end price. Rather, they will be based on either the preceding 12-months’ average price based on closing prices on the first day of each month, or prices defined by existing contractual arrangements.
 - Disclosure of probable and possible reserves is allowed.
- The estimation of reserves will allow the use of reliable technology that was not previously recognized by the SEC.
 - Numerous changes in reserves disclosures mandated by SEC Form 10K.
- Reserves may be classified as proved undeveloped if there is a high degree of confidence that the quantities will be recovered and they are scheduled to be drilled within the next five years, unless the specific circumstances justify a longer time.

The change in prices used to calculate reserves did not have a material impact upon our reserves estimation in the current period. These changes could have a material impact upon our financial statements in future periods due to the uncertainty of oil and gas prices.

(3) Share-Based Compensation

We have various types of share-based compensation plans. Refer to Note 6 of our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, for additional information related to these share-based compensation plans.

We follow guidance contained in FASB ASC 718 to account for share-based compensation.

We receive a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price at which the stock is sold over the exercise price of the options. We receive an additional tax deduction when restricted stock vests at a higher value than the value used to recognize compensation exp