SWIFT ENERGY CO
Form 10-Q/A
November 17, 2014

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

FORM 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended June 30, 2014
Commission File Number 1-8754
SWIFT ENERGY COMPANY
(Exact Name of Registrant as Specified in Its Charter)

Texas	20-3940661
(State of Incorporation)	(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	þ	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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes	þ	No	o

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	þ	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	þ

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

Common Stock ($.01 Par Value) (Class of Stock)	43,846,281 Shares (Outstanding at July 31, 2014)

1

Explanatory Note

We are filing this Amendment No. 1 on Form 10-Q/A (this “Form 10-Q/A”) to amend our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, originally filed with the Securities and Exchange Commission (the “SEC”) on August 1, 2014 (the “Original Filing”), to restate our unaudited condensed consolidated financial statements and related footnote disclosures for the three and six months ended June 30, 2014. This Form 10-Q/A also amends certain other Items in the Original Filing, as listed in “Items Amended in this Form 10-Q/A” below.

Restatement Background

On November 10, 2014, the Audit Committee of our Board of Directors (the “Audit Committee”), after discussion with management and Ernst & Young LLP (“EY”), our independent registered public accounting firm, determined that the following financial statements previously filed with the SEC should no longer be relied upon: (1) the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013; (2) the unaudited condensed consolidated financial statements included in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013, June 30, 2013, and September 30, 2013; and (3) the unaudited condensed consolidated financial statements included our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014.

In connection with the preparation of our financial statements for the quarter ended September 30, 2014, we determined that an error occurred in our model used for the ceiling test calculation we prepared at December 31, 2013, March 31, 2009 and December 31, 2008, to determine whether the net book value of the Company's oil and gas properties exceed the ceiling. Specifically, this error related to incorrectly including the deferred income tax effect of the Company's asset retirement obligations when computing the ceiling test limitation of its oil and natural gas properties under the full-cost method of accounting. The Company determined that the error caused a material overstatement of its full-cost ceiling test write-down of oil and gas properties in periods prior to 2014.

As a result of this error, we are restating our unaudited consolidated financial statements for the three and six months ended June 30, 2014 and 2013. As of June 30, 2014, the correction of this error principally increased the Company's net oil and gas property balances by approximately $48 million, increased the net deferred tax liabilities by approximately $18 million, and increased retained earnings by approximately $30 million. The correction of the error also resulted in an increase in our depreciation, depletion and amortization expense for the three months ended June 30, 2014 and 2013 of approximately $0.8 million and $0.3 million, respectively, and decreased net income for the three months ended June 30, 2014 and 2013 by approximately $0.5 million and $0.2 million, respectively (net of a decrease to the income tax provision for the three months ended June 30, 2014 and 2013, of approximately $0.3 million and $0.1 million, respectively). Further, the correction of the error also resulted in an increase in our depreciation, depletion and amortization expense for the six months ended June 30, 2014 and 2013 of approximately $1.4 million and $0.7 million, respectively, and decreased net income for the six months ended June 30, 2014 and 2013 by approximately $0.9 million and $0.4 million, respectively (net of a decrease to the income tax provision for the six months ended June 30, 2014 and 2013, of approximately $0.5 million and $0.3 million, respectively). Please refer to Note 1A - “Restatement of Previously Issued Consolidated Financial Statements” of this Form 10-Q/A for more information regarding the impact of these adjustments.

Along with restating our financial statements to correct the error discussed above, we are making adjustments for certain previously identified immaterial accounting errors related to the periods covered by this form 10-Q/A. When these financial statements were originally issued, we assessed the impact of these errors and concluded that they were not material to our financial statements for the three and six months ended June 30, 2014 and 2013. However, in conjunction with our need to restate our financial statements as a result of the error noted above, we have determined that it would be appropriate within this form 10-Q/A to make adjustments for all such previously unrecorded adjustments. Please refer to Note 1A - “Restatement of Previously Issued Consolidated Financial Statements” of this

Form 10-Q/A for more information regarding the impact of these adjustments.

Because these revisions are treated as corrections of errors to our prior period financial results, the revisions are considered to be a “restatement” under U.S. generally accepted accounting principles. Accordingly, the revised financial information included in this Quarterly Report on Form 10-Q/A has been identified as “restated”.

Internal Control Consideration

Our management has determined that there was a deficiency in our internal control over financial reporting that constitutes a material weakness, as defined by SEC regulations, at June 30, 2014. For a discussion of management’s consideration of our disclosure controls and procedures and the material weakness identified, see Part I, Item 4 included in this Form 10-Q/A.

Items Amended in this Form 10-Q/A

This Form 10-Q/A sets forth the Original Filing, in its entirety, as modified and superseded as necessary to reflect the restatement. The following items in the Original Filing have been amended as a result of, and to reflect, the restatement:

A. Part I, Item 1. Financial Statements

B. Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

C. Part I, Item 4. Controls and Procedures

D. Part II, Item 1A. Risk Factors

E. Part II, Item 6. Exhibits

This report on Form 10-Q/A is presented as of the filing date of the Original Filing and does not reflect events occurring after that date, or modify or update the information contained therein in any way other than as required to correct the error and record the adjustments described above.

In accordance with applicable SEC rules, this Form 10-Q/A includes new certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as amended, from our Chief Executive Officer and Chief Financial Officer dated as of the filing date of this Form 10-Q/A.

SWIFT ENERGY COMPANY

FORM 10-Q/A

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014
INDEX

Table of Contents

Condensed Consolidated Balance Sheets (As Restated)
Swift Energy Company and Subsidiaries (in thousands, except share amounts)

	June 30, 2014 (As Restated) (Unaudited)	December 31, 2013 (As Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents	$564	$3,277
Accounts receivable	69,387	70,897
Deferred tax asset	9,795	10,715
Other current assets	21,032	7,600
Total Current Assets	100,778	92,489
Property and Equipment:		
Property and Equipment, including $63,662 and $71,452 of unproved property costs not being amortized, respectively	5,923,457	5,714,099
Less – Accumulated depreciation, depletion, and amortization	(3,261,672)	(3,125,282)
Property and Equipment, Net	2,661,785	2,588,817
Other Long-Term Assets	15,030	17,199
Total Assets	$2,777,593	$2,698,505
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$104,523	$82,318
Accrued capital costs	49,870	61,164
Accrued interest	21,505	21,561
Undistributed oil and gas revenues	11,109	10,990
Total Current Liabilities	187,007	176,033
Long-Term Debt	1,178,301	1,142,368
Deferred Tax Liabilities	251,482	241,205
Asset Retirement Obligation	65,963	63,225
Other Long-Term Liabilities	9,695	10,324
Commitments and Contingencies	—	—
Stockholders' Equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized, none outstanding	—	—
Common stock, $.01 par value, 150,000,000 shares authorized, 44,278,732 and 43,915,346 shares issued, and 43,845,333 and 43,401,920 shares outstanding, respectively	443	439
Additional paid-in capital	766,875	762,242
Treasury stock held, at cost, 433,399, and 513,426 shares, respectively	(9,686)	(12,575)
Retained earnings	327,513	315,244
Total Stockholders’ Equity	1,085,145	1,065,350
Total Liabilities and Stockholders’ Equity	$2,777,593	$2,698,505

See accompanying Notes to Condensed Consolidated Financial Statements.

5

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(As Restated)	(As Restated)	(As Restated)	(As Restated)
Revenues:				
Oil and gas sales	$158,487	$142,503	$307,544	$289,034
Price-risk management and other, net	(2,493)	1,574	(7,370)	1,334
Total Revenues	155,994	144,077	300,174	290,368
Costs and Expenses:				
General and administrative, net	12,058	11,191	22,584	23,916
Depreciation, depletion, and amortization	73,090	59,773	135,741	120,229
Accretion of asset retirement obligation	1,415	1,479	2,801	3,254
Lease operating cost	23,572	26,957	48,539	53,841
Transportation and gas processing	6,013	4,865	11,305	9,603
Severance and other taxes	9,436	10,501	18,638	20,526
Interest expense, net	18,649	17,000	37,098	33,802
Total Costs and Expenses	144,233	131,766	276,706	265,171
Income Before Income Taxes	11,761	12,311	23,468	25,197
Provision for Income Taxes	4,934	4,762	11,199	9,610
Net Income	$6,827	$7,549	$12,269	$15,587
Per Share Amounts-				
Basic: Net Income	$0.16	$0.17	$0.28	$0.36
Diluted: Net Income	$0.15	$0.17	$0.28	$0.36
Weighted Average Shares Outstanding - Basic	43,826	43,369	43,727	43,268
Weighted Average Shares Outstanding - Diluted	44,312	43,612	44,215	43,599

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total
Balance, December 31, 2012 (As Restated)	$435	$748,517	$(13,855)	$317,686	$1,052,783
Stock issued for benefit plans (104,890 shares)	—	(1,171)	2,793	—	1,622
Shares issued from option exercises (1,125 shares)	—	4	—	—	4
Purchase of treasury shares (98,020 shares)	—	—	(1,513)	—	(1,513)
Tax shortfall from share-based compensation	—	(1,607)	—	—	(1,607)
Employee stock purchase plan (72,273 shares)	1	945	—	—	946
Issuance of restricted stock (391,581 shares)	3	(3)	—	—	—
Amortization of share-based compensation	—	15,557	—	—	15,557
Net Loss	—	—	—	(2,442)	(2,442)
Balance, December 31, 2013 (As Restated)	$439	$762,242	$(12,575)	$315,244	$1,065,350
Stock issued for benefit plans (154,665 shares) (1)	—	(1,876)	3,785	—	1,909
Purchase of treasury shares (74,638 shares) (1)	—	—	(896)	—	(896)
Employee stock purchase plan (71,825 shares) (1)	1	823	—	—	824
Issuance of restricted stock (291,561 shares) (1)	3	(3)	—	—	—
Amortization of share-based compensation (1)	—	5,689	—	—	5,689
Net Income (1)	—	—	—	12,269	12,269
Balance, June 30, 2014 (As Restated)	$443	$766,875	$(9,686)	$327,513	$1,085,145

(1) Unaudited

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows (Unaudited) (As Restated)
Swift Energy Company and Subsidiaries (in thousands)

	Six Months Ended June 30,			
	2014		2013	
	(As Restated)		(As Restated)	
Cash Flows from Operating Activities:				
Net income	$12,269		$15,587	
Adjustments to reconcile net income to net cash provided by operating activities-				
Depreciation, depletion, and amortization	135,741		120,229	
Accretion of asset retirement obligation	2,801		3,254	
Deferred income taxes	11,199		9,610	
Share-based compensation expense	3,683		6,018	
Other	(2,439	)	(6,321	)
Change in assets and liabilities-				
(Increase) decrease in accounts receivable	1,360		(1,064	)
Increase (decrease) in accounts payable and accrued liabilities	5,895		2,320	
Increase (decrease) in income taxes payable	(150	)	(178	)
Increase (decrease) in accrued interest	(56	)	76	
Net Cash Provided by Operating Activities	170,303		149,531	
Cash Flows from Investing Activities:				
Additions to property and equipment	(208,979	)	(265,317	)
Proceeds from the sale of property and equipment	35		6,841	
Net Cash Used in Investing Activities	(208,944	)	(258,476	)
Cash Flows from Financing Activities:				
Proceeds from bank borrowings	257,100		568,200	
Payments of bank borrowings	(221,100	)	(447,600	)
Net proceeds from issuances of common stock	824		946	
Purchase of treasury shares	(896	)	(1,433	)
Net Cash Provided by Financing Activities	35,928		120,113	
Net increase (decrease) in Cash and Cash Equivalents	(2,713	)	11,168	
Cash and Cash Equivalents at Beginning of Period	3,277		170	
Cash and Cash Equivalents at End of Period	$564		$11,338	
Supplemental Disclosures of Cash Flows Information:				
Cash paid during period for interest, net of amounts capitalized	$36,031		$32,708	
Cash paid during period for income taxes	$150		$178	

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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," the "Company," or "we") 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 note 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/A for the fiscal year ended December 31, 2013 as filed with the Securities and Exchange Commission on November 17, 2014.

(1A) Restatement of Previously Issued Condensed Consolidated Financial Statements

Overview. In connection with the preparation of our financial statements for the quarter ended September 30, 2014, we determined that the ceiling test calculation we had prepared at December 31, 2013, March 31, 2009 and December 31, 2008, to determine whether the net book value of the Company's oil and gas properties exceed the ceiling, incorrectly included the deferred income tax effect of the Company's asset retirement obligations when computing the ceiling test limitation of its oil and natural gas properties under the full-cost method of accounting. The Company determined that the error caused a material overstatement of its full-cost ceiling test write-down of oil and gas properties in periods prior to 2014, more specifically in the fourth quarter of 2013, in the first quarter of 2009 and the fourth quarter of 2008, including associated depletion for all periods presented. As a result of this error, in this Form 10-Q/A we are restating our unaudited condensed consolidated financial information for the three and six months ended June 30, 2014 and 2013.

As of June 30, 2014, the correction of this error principally increased the Company's net oil and gas property balances by approximately $48 million, increased net deferred tax liabilities by approximately $18 million, and increased retained earnings by approximately $30 million. The correction of the error resulted in an increase in our depreciation, depletion and amortization expense for the three months ended June 30, 2014 and 2013 of approximately $0.8 million and $0.3 million, respectively, and decreased net income for the three months ended June 30, 2014 and 2013 by approximately $0.5 million and $0.2 million, respectively (net of a decrease to the income tax provision for the three months ended June 30, 2014 and 2013, of approximately $0.3 million and $0.1 million, respectively). The correction of the error also results in an increase in our depreciation, depletion and amortization expense for the six months ended June 30, 2014 and 2013 of approximately $1.4 million and $0.7 million, respectively, and decreases net income for the six months ended June 30, 2014 and 2013 by approximately $0.9 million and $0.4 million, respectively (net of a decrease to the income tax provision for the six months ended June 30, 2014 and 2013, of approximately $0.5 million and $0.3 million, respectively).

Along with restating our financial statements to correct the error discussed above, we have recorded adjustments for certain previously identified immaterial accounting errors related to the periods covered by this Form 10-Q/A. When these financial statements were originally issued, we assessed the impact of these errors and concluded that they were not material to our financial statements for the three and six months ended June 30, 2014 and 2013. However, in conjunction with our need to restate our financial statements as a result of the error noted above, we have determined that it would be appropriate to make adjustments within this Form 10-Q/A for all such previously unrecorded adjustments.

The combined impacts of all adjustments to the applicable line items in our unaudited condensed consolidated financial statements for the periods covered by this Form 10-Q/A are provided in the tables below.

Financial Statement Presentation. In addition to the restatement of our unaudited condensed consolidated financial statements, we have restated the following notes to the unaudited condensed consolidated financial statements to reflect certain changes noted above.

- Note 2. Summary of Significant Accounting Policies
- Note 3. Share-Based Compensation
- Note 4. Earnings Per Share

Table of Contents

The following tables present the effect of the correction of the error and other adjustments on selected line items of our previously reported unaudited condensed consolidated financial statements for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Consolidated Balance Sheets as of June 30, 2014		
	(As Reported)	Adjustments	(As Restated)
Accounts Receivable	$68,615	$772	$69,387
Deferred tax asset	4,829	4,966	9,795
Other Current Assets	21,033	(1)	21,032
Total Current Assets	95,041	5,737	100,778
Accumulated depreciation, depletion, and amortization (1)	(3,308,992)	47,320	(3,261,672)
Property and Equipment, Net	2,614,465	47,320	2,661,785
Total Assets	2,724,536	53,057	2,777,593
Deferred Tax Liabilities (1)	229,107	22,375	251,482
Retained earnings (1)	296,831	30,682	327,513
Total Stockholders' Equity	1,054,463	30,682	1,085,145
Total Liabilities and Stockholders' Equity	2,724,536	53,057	2,777,593

(1) The adjustments column includes the impact of correcting the error in the ceiling test write-down as of June 30, 2014. Included in these amounts are approximately $48 million related to Accumulated depreciation, depletion, and amortization, $18 million related to the net deferred tax liabilities and $30 million related to retained earnings.

	Condensed Consolidated Statements of Operations For the Three Months Ended June 30,					
	2014			2013		
	(As Reported)	Adjustments	(As Restated)	(As Reported)	Adjustments	(As Restated)
Oil and Gas Sales	$158,214	$273	$158,487	$140,892	$1,611	$142,503
Total Revenues	155,721	273	155,994	142,466	1,611	144,077
General and Administrative, net	12,412	(354)	12,058	11,191	—	11,191
Depreciation, depletion, and amortization	72,205	885	73,090	59,458	315	59,773
Lease operating cost	21,932	1,640	23,572	26,957	—	26,957
Total Costs and Expenses	142,062	2,171	144,233	131,451	315	131,766
Income (Loss) from Continuing Operations Before Income Taxes	13,659	(1,898)	11,761	11,015	1,296	12,311
Provision (Benefit) for Income Taxes	5,621	(687)	4,934	4,293	469	4,762
Net Income (Loss)	8,038	(1,211)	6,827	6,722	827	7,549
Basic EPS: Net Income (Loss)	$0.18	$(0.02)	$0.16	$0.15	$0.02	$0.17
Diluted EPS: Net Income (Loss)	$0.18	$(0.03)	$0.15	$0.15	$0.02	$0.17

Table of Contents

	Condensed Consolidated Statements of Operations For the Six Months Ended June 30,					
	2014			2013		
	(As Reported)	Adjustments	(As Restated)	(As Reported)	Adjustments	(As Restated)
Oil and Gas Sales	$306,772	$772	$307,544	$287,369	$1,665	$289,034
Total Revenues	299,402	772	300,174	288,703	1,665	290,368
General and Administrative, net	23,151	(567)	22,584	23,916	—	23,916
Depreciation, depletion, and amortization	133,890	1,851	135,741	119,578	651	120,229
Lease operating cost	47,199	1,340	48,539	54,381	(540)	53,841
Transportation and gas processing	11,305	—	11,305	10,895	(1,292)	9,603
Severance and other taxes	18,638	—	18,638	20,276	250	20,526
Total Costs and Expenses	274,082	2,624	276,706	266,102	(931)	265,171
Income (Loss) from Continuing Operations Before Income Taxes	25,320	(1,852)	23,468	22,601	2,596	25,197
Provision (Benefit) for Income Taxes	11,869	(670)	11,199	8,670	940	9,610
Net Income (Loss)	13,451	(1,182)	12,269	13,931	1,656	15,587
Basic EPS: Net Income (Loss)	$0.31	$(0.03)	$0.28	$0.32	$0.04	$0.36
Diluted EPS: Net Income (Loss)	$0.30	$(0.02)	$0.28	$0.32	$0.04	$0.36

	Consolidated Statements of Cash Flows For the Six Months Ended June 30,					
	2014			2013		
	(As Reported)	Adjustments	(As Restated)	(As Reported)	Adjustments	(As Restated)
Net income (loss)	$13,451	$(1,182)	$12,269	$13,931	$1,656	$15,587
Depreciation, depletion, and amortization	133,890	1,851	135,741	119,578	651	120,229
Deferred income taxes	11,869	(670)	11,199	8,670	940	9,610
Share-based compensation expense	3,953	(270)	3,683	6,018	—	6,018
Other	(2,439)	—	(2,439)	(6,024)	(297)	(6,321)
(Increase) decrease in accounts receivable	2,132	(772)	1,360	601	(1,665)	(1,064)
Increase (decrease) in accounts payable and accrued liabilities	4,852	1,043	5,895	3,605	(1,285)	2,320
Net Cash Provided by Operating Activities	170,303	—	170,303	149,531	—	149,531

(2) Summary of Significant Accounting Policies (As Restated)

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 gas properties, with a focus on inland waters and onshore oil and natural gas reserves in Louisiana and Texas. Our undivided interests in oil and gas properties 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.

Subsequent Events. On July 15, 2014, we closed our transaction with PT Saka Energi Indonesia ("Saka Energi") to fully develop 8,300 acres of Fasken area Eagle Ford shale properties owned by Swift Energy in Webb County, Texas.

Swift Energy sold a 36% full participating interest in the Fasken properties to Saka Energi for $175 million in total cash consideration, with $125 million paid at closing and $50 million in cash to be paid by Saka Energi over time to carry a portion of Swift Energy's field development costs incurred after the effective date, January 1, 2014.

Table of Contents

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 amounts 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 there-from,
- 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 sales, 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 share-based compensation expense,
- estimates of our ownership in properties prior to final division of interest determination,
- the estimated future cost and timing of asset retirement obligations,
- estimates made in our income tax calculations,
- estimates in the calculation of the fair value of hedging assets and liabilities, and
- estimates in the assessment of current litigation claims against the company.

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 adjustments occur.

We are subject to legal proceedings, claims, liabilities and environmental matters that arise in the ordinary course of business. We accrue for losses when such losses are considered probable and the amounts can be reasonably estimated.

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 three months ended June 30, 2014 and 2013, such internal costs capitalized totaled $6.9 million and $7.5 million, respectively. For the six months ended June 30, 2014 and 2013, such internal costs capitalized totaled $14.1 million and $16.0 million, respectively. Interest costs are also capitalized to unproved oil and natural gas properties. For the three months ended June 30, 2014 and 2013, capitalized interest on unproved properties totaled $1.2 million and $1.9 million, respectively. For the six months ended June 30, 2014 and 2013, capitalized interest on unproved properties totaled $2.5 million and $3.8 million, respectively. Interest not capitalized and general and administrative costs related to production and general corporate overhead are expensed as incurred.

Table of Contents

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 (in thousands):

	June 30, 2014 (As Restated)	December 31, 2013 (As Restated)
Property and Equipment		
Proved oil and gas properties	$5,817,395	$5,600,279
Unproved oil and gas properties	63,662	71,452
Furniture, fixtures, and other equipment	42,400	42,368
Less – Accumulated depreciation, depletion, and amortization	(3,261,672)	(3,125,282)
Property and Equipment, Net	$2,661,785	$2,588,817

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 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 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 two and 20 years. Repairs and maintenance are charged to expense as incurred.

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 price differentials, discounted at 10%, and the lower of cost or fair value of unproved properties) adjusted for related income tax effects ("Ceiling Test"). This calculation is done on a country-by-country basis.

The calculations of the Ceiling Test and provision for DD&A are 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.

Table of Contents

It is reasonably possible that our estimate of discounted future net cash flows from proved oil and natural gas reserves could change in the future and that non-cash write-downs of oil and natural gas properties could occur in the future. For example, if future capital expenditures out pace future discounted net cash flows in our reserve calculations, if we have significant declines in our oil and natural gas reserves volumes (which also reduces our estimate of discounted future net cash flows from proved oil and natural gas reserves) or if oil or natural gas prices decline, non-cash write-downs of our oil and natural gas properties could occur in the future. We cannot estimate the amount or timing of any potential future non-cash write-down of our oil and natural gas properties.

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 condensed consolidated balance sheets. Natural gas balancing receivables are reported in “Other current assets” on the accompanying condensed consolidated balance sheets when our ownership share of production exceeds sales. As of June 30, 2014 and December 31, 2013, 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.

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, 2014 and December 31, 2013, 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, 2014, our “Accounts receivable” balance included $59.7 million (restated) for oil and gas sales, $1.1 million for joint interest owners, $7.7 million for severance tax credit receivables and $0.8 million for other receivables. At December 31, 2013, our “Accounts receivable” balance included $56.9 million for oil and gas sales, $1.6 million for joint interest owners, $11.6 million for severance tax credit receivables and $0.8 million for other receivables.

Debt Issuance Costs. Legal fees, accounting fees, underwriting fees, printing costs, and other direct expenses associated with extensions of our bank credit facility and public debt offerings were capitalized and are amortized on an effective interest basis over the life of each of the respective senior note offerings and credit facility.

The 7.125% senior notes due in 2017 mature on June 1, 2017, and the balance of their issuance costs at June 30, 2014, was $1.5 million. The 8.875% senior notes due in 2020 mature on January 15, 2020, and the balance of their issuance costs at June 30, 2014, was $3.3 million. The 7.875% senior notes due in 2022 mature on March 1, 2022, and the balance of their issuance costs at June 30, 2014, was $6.2 million. The balance of revolving credit facility issuance costs at June 30, 2014, was $2.9 million.

Price-Risk Management Activities. The Company follows FASB ASC 815-10, which requires that changes in the derivative’s fair value are recognized in earnings. The changes in the fair value of our derivatives are recognized in "Price-risk management and other, net” on the accompanying condensed consolidated statements of operations. 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 swaps, floors, calls, collars and participating collars.

During the three months ended June 30, 2014 and 2013, we recorded net losses of $2.7 million and net gains of $1.5 million, respectively, relating to our derivative activities. The 2014 amount includes a revenue reduction of $1.2 million during the second quarter of 2014 for the non-cash fair value adjustments on commodity derivatives. The effects of our derivatives are included in the "Other" section of our operating activities on the accompanying condensed consolidated statements of cash flows.

The fair values of our derivatives are computed using commonly accepted industry-standard models and are periodically verified against quotes from brokers. The fair value of our unsettled derivative assets at June 30, 2014 was $0.2 million which was recognized on the accompanying condensed consolidated balance sheet in “Other current assets.” The fair value of our unsettled derivative liabilities at June 30, 2014 was $3.1 million which was recognized on the accompanying condensed consolidated balance sheet in “Accounts payable and accrued liabilities.”

At June 30, 2014, we had less than $0.1 million in receivables for settled derivatives which were recognized on the accompanying condensed consolidated balance sheet in “Accounts receivable” and were subsequently collected in July 2014. At

14

Table of Contents

June 30, 2014, we also had $1.3 million in payables for settled derivatives which were recognized on the accompanying condensed consolidated balance sheet in "Accounts payable and accrued liabilities" and were subsequently paid in July 2014.

The Company uses an International Swap and Derivatives Association "ISDA" master agreement for our derivative contracts. This is an industry standardized contract containing the general conditions of our derivative transactions including provisions relating to netting derivative settlement payments under certain circumstances (such as default). For reporting purposes, the Company has elected to not offset the asset and liability fair value amounts of its derivatives on the accompanying balance sheets. If all counterparties were in a default situation, the Company, under the right of set-off, would show a net derivative fair value liability of $2.9 million at June 30, 2014. For further discussion related to the fair value of the Company's derivatives, refer to Note 7 of these condensed consolidated financial statements.

The following tables summarize the weighted average prices and future production volumes for our unsettled derivative contracts in place as of June 30, 2014:

Oil Derivatives (NYMEX WTI Settlements)	Total Volumes (Bbls)	Swap Fixed Price
2014 Contracts		
Swaps	197,500	$ 101.76

Natural Gas Derivatives (NYMEX Henry Hub Settlements)	Total Volumes (MMBtu)	Swap Fixed Price	Collars Floor Price	Ceiling Price
2014 Contracts				
Swaps	7,020,000	$ 4.29		
Collars	2,100,000		$ 4.13	$ 4.46
2015 Contracts				
Swaps	900,000	$ 4.42		

Natural Gas Basis Derivatives (East Texas Houston Ship Channel Settlements)	Total Volumes (MMBtu)	Swap Fixed Price
2014 Contracts		
Swaps	8,850,000	$ (0.09)
2015 Contracts		
Swaps	8,200,000	$ (0.02)

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 are recorded as a reduction to “General and administrative, net”, on the accompanying condensed consolidated statements of operations. Our supervision fees are based on COPAS industry guidelines. The amount of supervision fees charged for the three and six months ended June 30, 2014 and 2013 did not exceed our actual costs incurred. The total amount of supervision fees charged to the wells we operated were $3.0 million and $3.3 million for the three months ended June 30, 2014 and 2013, respectively and $5.7 million and $6.1 million for the six months ended June 30, 2014 and 2013, respectively.

Inventories. Inventories consist primarily of tubulars and other equipment and supplies 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 $3.0 million and $3.5 million at June 30, 2014 and December 31, 2013, respectively.

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.

Table of Contents

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 policy is to record interest and penalties relating to uncertain tax positions in income tax expense. At June 30, 2014, we did not have any accrued liability for uncertain tax positions and do not anticipate recognition of any significant liabilities for uncertain tax positions during the next 12 months.

Our U.S. Federal income tax returns for 2007 forward, our Louisiana income tax returns from 1999 forward and our Texas franchise tax returns after 2008 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 jurisdiction returns are significant to our financial position.

For the six months ended June 30, 2014, we recognized an income tax expense increase of $1.9 million related to a shortfall between the tax deduction received with respect to prior restricted stock grants that vested during the year versus the actual book expense recorded over the life of those grants.

Accounts Payable and Accrued Liabilities. The “Accounts payable and accrued liabilities” balances on the accompanying condensed consolidated balance sheets are summarized below (in thousands):

	June 30, 2014	December 31, 2013 (As Restated)
Trade accounts payable (1)	$ 39,240	$ 30,769
Accrued operating expenses	15,988	16,016
Accrued payroll costs	8,655	10,938
Asset retirement obligation – current portion	13,717	15,859
Accrued taxes	7,533	5,845
Escrow deposit liability (2)	12,500	—
Other payables	6,890	2,891
Total accounts payable and accrued liabilities	$ 104,523	$ 82,318

(1) Included in “trade accounts payable” are liabilities of approximately $7.5 million and $26.1 million at June 30, 2014 and December 31, 2013, respectively, for outstanding checks.
(2) This amount includes the liability related to the Fasken joint venture for the restricted cash, held in escrow, at June 30, 2014.

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. During the second quarter we received a cash deposit, held in an escrow account, of $12.5 million related to the Fasken joint venture. These amounts were contractually restricted until the transaction closed on July 15, 2014. As of June 30, 2014, this balance is reported in “Other current assets” on the accompanying condensed consolidated balance sheets.

Restricted Cash also includes amounts held in escrow accounts to satisfy plugging and abandonment obligations. As of June 30, 2014 and December 31, 2013, these assets were approximately $1.0 million. 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. These restricted cash balances are reported in “Other Long-Term Assets” on the accompanying condensed consolidated balance sheets.

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 as part of depreciation, depletion, and amortization expense for our oil and gas properties. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement which is included in the “Property and Equipment” balance on our accompanying condensed consolidated balance sheets. This guidance requires us to record a liability for the fair value of our dismantlement and abandonment costs, excluding salvage values.

Table of Contents

The following provides a roll-forward of our asset retirement obligation (in thousands):

	2014
Asset Retirement Obligation recorded as of January 1	$ 79,084
Accretion expense	2,801
Liabilities incurred for new wells and facilities construction	180
Reductions due to sold and abandoned wells and facilities	(2,643)
Revisions in estimates	258
Asset Retirement Obligation as of June 30	$ 79,680

At June 30, 2014 and December 31, 2013, approximately $13.7 million and $15.9 million of our asset retirement obligation was classified as a current liability in “Accounts payable and accrued liabilities” on the accompanying condensed consolidated balance sheets.

New Accounting Pronouncements. In May 2014, the FASB issued ASU 2014-09, providing a comprehensive revenue recognition standard for contracts with customers that supersedes current revenue recognition guidance. The guidance is effective for annual and interim reporting periods beginning after December 15, 2016 and upon adoption, entities are required to recognize revenue using the following five-step model: identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue as the entity satisfies each performance obligation. Adoption of this standard could result in retrospective application, either in the form of recasting all prior periods presented or a cumulative adjustment to equity in the period of adoption. We plan to review and assess the effect and implement any necessary requirements as needed.

(3) Share-Based Compensation (As Restated)

We have various types of share-based compensation plans. Refer to our definitive proxy statement for our annual meeting of shareholders filed with the SEC on April 2, 2014, as well as Note 6 of our consolidated financial statements in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2013, 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 stock options are exercised, generally for the excess of the market value on the exercise date over the exercise price of the stock option awards. We receive an additional tax deduction when restricted stock awards vest at a higher value than the value used to recognize compensation expense at the date of grant. In accordance with guidance contained in FASB ASC 718, we are required to report excess tax benefits from the award of equity instruments as financing cash flows. For the three and six months ended June 30, 2014, we recognized an income tax shortfall in earnings of $0.2 million and $1.9 million, respectively, related to restricted stock awards that vested at a price lower than the grant date fair value. For the three and six months ended June 30, 2013, we did not recognize any material excess tax benefit or shortfall in earnings. There were no stock option exercises for the six months ended June 30, 2014 and 2013.

Share-based compensation expense for awards issued to both employees and non-employees, which was recorded in “General and administrative, net” in the accompanying condensed consolidated statements of operations, was $1.7 million and $2.8 million for the three months ended June 30, 2014 and 2013, respectively and $3.3 million (restated) and $5.6 million for the six months ended June 30, 2014 and 2013, respectively. Share-based compensation recorded in lease operating cost was less than $0.1 million for the three months ended June 30, 2014 and 2013 and was $0.1 million and $0.2 million for the six months ended June 30, 2014 and 2013, respectively. We also capitalized $0.9 million and $1.6 million of share-based compensation for the three months ended June 30, 2014 and 2013, respectively, and capitalized $2.0 million and $3.2 million for the six months ended June 30, 2014 and 2013, respectively. We view stock option awards and restricted stock awards with graded vesting as single awards with an expected life equal to the average expected life of component awards and amortize the awards on a straight-line basis over the life of the awards.

Stock Option Awards

We use the Black-Scholes-Merton option pricing model to estimate the fair value of stock option awards. During the six months ended June 30, 2014 and 2013 we did not grant any stock option awards.

Table of Contents

At June 30, 2014, we had $0.3 million of unrecognized compensation cost related to stock option awards, which is expected to be recognized over a weighted-average period of 0.6 years. The following table represents stock option award activity for the six months ended June 30, 2014:

	Shares	Wtd. Avg. Exercise Price
Options outstanding, beginning of period	1,488,314	$33.38
Options granted	—	$—
Options canceled	(58,694)	$23.24
Options exercised	—	$—
Options outstanding, end of period	1,429,620	$33.78
Options exercisable, end of period	1,327,449	$33.87

Our stock option awards outstanding and exercisable at June 30, 2014 were out of the money and therefore had no aggregate intrinsic value. At June 30, 2014, the weighted average contract life of stock option awards outstanding was 5.0 years and the weighted average contract life of stock option awards exercisable was 4.8 years. There were no stock option exercises for the six months ended June 30, 2014 and 2013.

Restricted Stock Awards

The plans, as described in Note 6 of our consolidated financial statements in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2013, allow for the issuance of restricted stock awards that generally may not be sold or otherwise transferred until certain restrictions have lapsed. The unrecognized compensation cost related to these awards is expected to be expensed over the period the restrictions lapse (generally one to three years).

The compensation expense for these awards was determined based on the closing market price of our stock at the date of grant applied to the total number of shares that were anticipated to fully vest. As of June 30, 2014, we had unrecognized compensation expense of $14.9 million related to restricted stock awards which is expected to be recognized over a weighted-average period of 1.9 years. The grant date fair value of shares vested during the six months ended June 30, 2014 was $10.2 million.

The following table represents restricted stock award activity for the six months ended June 30, 2014:

	Shares	Wtd. Avg. Grant Price
Restricted shares outstanding, beginning of period	1,267,110	$21.54
Restricted shares granted	716,650	$11.57
Restricted shares canceled	(114,672)	$15.37
Restricted shares vested	(291,561)	$34.83
Restricted shares outstanding, end of period	1,577,527	$15.00

Performance-Based Restricted Stock Units

For the six months ended June 30, 2014 and 2013, the Company granted 185,250 and 189,700 units, respectively, of performance-based restricted stock units containing predetermined market and performance conditions with a cliff vesting period of 3.1 years. These units were granted at 100% of target payout while the conditions of the grants allow for a payout ranging between no payout and 200% of target.

The compensation expense for the market condition is based on the per unit grant date valuation using a Monte-Carlo simulation. The performance condition is remeasured quarterly and compensation expense is recorded based on the closing market price of our stock per unit on the grant date multiplied by the expected payout level. The payout level is calculated based on actual performance achieved during the performance period compared to a defined peer group.

As of June 30, 2014, we had unrecognized compensation expense of $3.1 million related to our restricted stock units which is expected to be recognized over a weighted-average period of 2.3 years. No shares vested during the six months ended

Table of Contents

June 30, 2014 and 2013. The weighted average grant date fair value for the restricted stock units granted during the six months ended June 30, 2014 and 2013 was $11.68 and $15.01 per unit, respectively.

The following table represents restricted stock unit activity for the six months ended June 30, 2014:

	Shares	Wtd. Avg. Grant Price
Restricted stock units outstanding, beginning of period	189,700	$ 15.01
Restricted stock units granted	185,250	$ 11.68
Restricted stock units canceled	—	$ —
Restricted stock units vested	—	$ —
Restricted stock units outstanding, end of period	374,950	$ 13.36

(4) Earnings Per Share (As Restated)

The Company computes earnings per share in accordance with FASB ASC 260-10. Basic earnings per share (“Basic EPS”) has been computed using the weighted average number of common shares outstanding during each period. Diluted earnings per share ("Diluted EPS") assumes, as of the beginning of the period, exercise of stock options and restricted stock grants using the treasury stock method. Diluted EPS also assumes conversion of performance-based restricted stock units to common shares based on the number of shares (if any) that would be issuable, according to predetermined performance and market goals, if the end of the reporting period was the end of the performance period. Certain of our stock options and restricted stock grants that would potentially dilute Basic EPS in the future were also antidilutive for the three and six months ended June 30, 2014 and 2013, and are discussed below.

The following is a reconciliation of the numerators and denominators used in the calculation of Basic and Diluted EPS for the three and six months ended June 30, 2014 and 2013 (in thousands, except per share amounts):

	Three Months Ended June 30, 2014 (As Restated)			Three Months Ended June 30, 2013 (As Restated)
	Net Income	Shares	Per Share Amount	Net Income