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

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

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

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

For the Fiscal Year Ended December 31, 2013

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:

Title of Class	Exchanges on Which Registered:
Common Stock, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes	o	No	þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934.

Yes	o	No	þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
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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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold on the New York Stock Exchange as of June 30, 2013, the last business day of June 2013, was approximately $504,125,149.

The number of shares of common stock outstanding as of January 31, 2014 was 43,475,471.

Documents Incorporated by Reference	
Proxy Statement for the Annual Meeting of Shareholders to be held May 20, 2014	Part III, Items 10, 11, 12, 13 and 14

Explanatory Note

We are filing this amended Form 10-K/A ("Form 10-K/A") to amend our Annual Report on Form 10-K for the year ended December 31, 2013, originally filed with the Securities and Exchange Commission (the "SEC") on March 3, 2014 ("Original Filing"), to restate our consolidated financial statements and related footnote disclosures for the years ended December 31, 2013, 2012 and 2011. This Form 10-K/A also includes certain restated quarterly information under the Supplementary Information heading in Item 8 of this Form 10-K/A. This Form 10-K/A also amends certain other Items in the Original Filing, as listed in "Items Amended in this Form 10-K/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, 2012 and 2011; (2) the unaudited condensed consolidated financial statements included in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013 and 2012, June 30, 2013 and 2012, and September 30, 2013 and 2012; and (3) the unaudited condensed consolidated financial statements included in our quarterly reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014. Similarly, the related press releases, auditor reports on the consolidated financial statements as of and for the year ended December 31, 2013 and the effectiveness of internal control over financial reporting as of December 31, 2013, management's report on the effectiveness of internal control over financial reporting as of December 31, 2013, and stockholder communications describing the portion of our financial statements for these periods that need to be restated should no longer be relied upon.

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 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, including associated depletion for all periods presented. As a result of this error, we have restated our audited consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 and our unaudited condensed consolidated financial information for the quarters ended March 31, 2013, June 30, 2013, September 30, 2013, and December 31, 2013.

As of December 31, 2013, the correction of this error principally increased the Company's net oil and gas property balances by approximately $49 million, increased the net deferred tax liabilities by approximately $18 million, and increased retained earnings by approximately $31 million. Approximately $15 million of the increase in retained earnings is related to periods prior to 2013, more specifically to the first quarter of 2009 and the fourth quarter of 2008. For the year ended December 31, 2013, the correction of the ceiling test error also resulted in a decrease in our ceiling-test write-down for the year ended December 31, 2013 of approximately $27 million, which was partially offset by an increase in our depreciation, depletion and amortization expense for the year of approximately $1 million. Further, these corrections increased net income for the year ended December 31, 2013 by approximately $16 million (net of an increase to the income tax benefit of approximately $9 million for the period). Please refer to Note 1A - "Restatement of Previously Issued Consolidated Financial Statements" of this Form 10-K/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-K/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 each of the years ended December 31, 2013, 2012, and 2011, and reported fiscal quarters within each of these years. 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-K/A to record all such previously unrecorded adjustments. Please refer to Note 1A - "Restatement of Previously Issued Consolidated Financial Statements" of this Form 10-K/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 Annual Report on Form 10-K/A has been identified as "restated".

Restatement of Other Financial Statements

In addition to this Form 10-K/A, we are concurrently filing an amendment to our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014 (the "Form 10-Q/As"). We are filing the Form 10-Q/As to restate our unaudited condensed consolidated financial statements and related financial information for the periods contained in those reports and to amend certain other Items within those reports.

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 December 31, 2013, as discussed in Part II, Item 9A of this Form 10-K/A.

Items Amended in this Form 10-K/A

For the convenience of the reader, this Form 10-K/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 II, Item 6. Selected Financial Data

B. Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

C. Part II, Item 8. Financial Statements and Supplementary Data

D. Part II, Item 9A. Controls and Procedures

E. Part IV, Item 15. Exhibits, Financial Statement Schedules

This report on Form 10-K/A is presented as of the filing date of the Original Form 10-K 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-K/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-K/A.

Form 10-K/A
Swift Energy Company and Subsidiaries

10-K/A Part and Item No.

(1) Incorporated by reference from Proxy Statement for the Annual Meeting of Shareholders to be held May 20, 2014

Items 1 and 2. Business and Properties

See pages 25 and 26 for explanations of abbreviations and terms used herein.

General

Swift Energy Company is engaged in developing, exploring, acquiring, and operating oil and natural gas properties, with a focus on oil and natural gas reserves in Texas as well as onshore and in the inland waters of Louisiana. Swift Energy was founded in 1979 and is headquartered in Houston, Texas. At December 31, 2013, we had estimated proved reserves of 219.2 MMBoe with a PV-10 Value of $2.4 billion (PV-10 Value is a non-GAAP measure, see the section titled “Oil and Natural Gas Reserves” in our Property section for a reconciliation of this non-GAAP measure to the closest GAAP measure). Our total proved reserves at December 31, 2013 were approximately 24% crude oil, 62% natural gas, and 14% NGLs while 29% of our total proved reserves were developed. Our proved reserves are concentrated with 80% in Texas and 20% in Louisiana.

We currently focus primarily on development and exploration of three core areas. The major fields in our core areas are:

- South Texas
  Olmos
  AWP

  Eagle Ford
  AWP
  Artesia Wells
  Fasken

- Southeast Louisiana
  Lake Washington
  Bay De Chene

- Central Louisiana
  South Bearhead Creek
  Masters Creek
  Burr Ferry

Competitive Strengths and Business Strategy

Our competitive strengths, together with a balanced and comprehensive business strategy, provide us with the flexibility and capability to achieve our goals. Our primary strengths and strategies are set forth below.

Demonstrated Ability to Grow Reserves and Production

We have grown our proved reserves from 116.4 MMBoe to 219.2 MMBoe over the five-year period ended December 31, 2013. Over the same period, our annual production has grown from 10.0 MMBoe to 11.7 MMBoe. Our growth in reserves and production over this five-year period has resulted primarily from drilling activities in our core areas. During 2013, our proved reserves increased by 14%, due mainly to additional drilling in our South Texas core area. Based on our long-term historical performance and our business strategy going forward, we believe that we have the opportunities, experience, and knowledge to continue growing both our reserves and production.

2014 Strategy

We currently plan to fund our 2014 capital expenditures with our 2014 operating cash flow, potential line of credit borrowings and proceeds from asset dispositions and/or joint ventures. Our 2014 planned capital expenditures are $300 to $350 million. These amounts are flexible and will be adjusted based on the timing of any announced transactions and market fundamentals. The Company is currently negotiating the sale of some or all of its properties in Central Louisiana and is also negotiating joint venture arrangements for a portion of our natural gas Eagle Ford properties to accelerate drilling and development, monetize a portion of those asset values, diversify our risk profile and possibly free up capital dollars for other purposes. The Company expects these transactions will be finalized by the end of the second quarter. The completion of one or both of these transactions will affect the level of our 2014 capital expenditures as we better align our capital expenditures with our expected cash flows. We will continue to rationalize our portfolio to focus on properties that generate the most attractive returns on capital.

Replacement of Reserves

Historically we have added proved reserves through both our drilling and acquisition activities. We believe that this strategy will continue to add reserves for us over the long-term; however, external factors beyond our control, such as limited availability of capital or its cost, competition within our industry, adverse weather conditions, commodity market factors, the requirement of new or upgraded infrastructure at the production sites, technological advances, and governmental regulations, could limit our ability to drill wells, access reserves, and acquire proved properties in the future. We have included a listing of the vintages of our proved undeveloped reserves in the table titled “Proved Undeveloped Reserves” and believe this table will provide an understanding of the time horizon required to convert proved undeveloped reserves to oil and natural gas production. Our reserves additions for each year are estimates. Reserves volumes can change over time and therefore cannot be absolutely known or verified until all volumes have been produced and a cumulative production total for a well or field can be calculated. We have replaced 300% of our production on average over the last five years with our new reserves.

Concentrated Focus on Core Areas with Operational Control

The concentration of our operations in our core areas allows us to leverage our drilling unit and workforce synergies while minimizing the continued escalation of drilling and completion costs. Our average lease operating costs, excluding taxes, were $10.28, $10.02 and $9.95 per Boe for the years ended December 31, 2013, 2012 and 2011, respectively. Each of our core areas includes properties that are targeted for future growth. This concentration allows us to utilize the experience and knowledge we gain in these areas to continually improve our operations and guide us in developing our future activities and in operating similar types of assets. The value of this concentration is enhanced by our operational control of 99% of our proved oil and natural gas reserves base as of December 31, 2013. Retaining operational control allows us to more effectively manage production, control operating costs, allocate capital, and time field development.

Develop Under-Exploited Properties

We are focused on applying advanced technologies and recovery methods to areas with known hydrocarbon resources to optimize our exploration and exploitation of such properties as illustrated in our core areas. For instance, in 1989 we acquired producing properties in the AWP field in Texas from a major producer. This field had been developed in the early 1980's and was considered close to maturity when we made this acquisition. The Company began to acquire adjacent undeveloped acreage and in 1994 launched an aggressive drilling program. This area has remained a cornerstone of our operations as we have pursued other opportunities. Since assuming operations in this area, our drilling and completion techniques have been continuously refined to improve hydrocarbon recovery from the tight sand Olmos formation. Almost all of our existing interest overlays portions of the now very active Eagle Ford shale play which is being developed through the combination of horizontal drilling and multi-stage fracture stimulation completion techniques. While the combination of proven drilling and completion technologies have allowed us to begin to exploit the Eagle Ford shale, we have applied the same methods to further develop the “mature” Olmos sand. As a result, we substantially increased our Olmos production even though we have been producing from this formation for over 20 years. The Company has acquired 800 square miles of 3D seismic data over the AWP and Artesia Wells areas. In 2011 and 2012 we merged and prestack time migrated 800 square miles of this data that we are using to plan our wells and enhance and expand our developments at AWP and the Artesia Wells area. We continue to apply our advanced inversion techniques and improve and expand our rock properties understanding which allows us to identify and drill within the most highly productive zones in the Eagle Ford and Olmos formations.

Another of our significant successes is the Lake Washington field. This field was discovered in the 1930s. We acquired our properties in this area for $30.5 million in 2001 and increased our average daily net production from less than 700 Boe to a historical peak of over 18,000 Boe several years ago. We have utilized enhanced 3-D seismic and various completion techniques including sliding sleeves to improve drilling success and production performance. In 2013 we commenced the application of advanced inversion techniques to identify new drilling opportunities around the Lake Washington salt dome. When we acquired this field we booked 7.7 MMBoe of reserves. Since acquisition we produced approximately 52 MMBoe and still have remaining proved reserves of 12.0 MMBoe.

Experienced Technical Team and Technology Utilization

We employ 59 oil and gas technical professionals, including geophysicists, petrophysicists, geologists, petroleum engineers and production and reservoir engineers, who have an average of approximately 23 years of experience in their technical fields and have been employed by us for an average of approximately seven years. In addition, we engage experienced and qualified consultants to perform various comprehensive seismic acquisitions, processing, reprocessing, interpretation, and other related services. We continually apply our extensive in-house experience and current technologies to benefit our drilling and production operations.

We increasingly use advanced technology to enhance the results of our drilling and production efforts, including two and three-dimensional seismic acquisition, licensing and pre-stack time and depth imaging, advanced attributes, pore-pressure analysis, inversion and detailed field reservoir depletion planning. In the past three years, we completed projects to invert, calibrate, merge and prestack time-migrate our 800 square miles of merged 3-D seismic data over and near our AWP and Artesia Wells fields. In 2013, we initiated a project to license high-quality 3-D seismic and apply advanced inversion techniques over our Fasken field.

The application of horizontal drilling and multi-stage hydraulic fracturing technology has resulted in increases in production and decreases in completion and operating costs in our South Texas Olmos and Eagle Ford operations. In 2013, we successfully drilled 42 horizontal wells in our South Texas area using this technology. We will continue to improve and employ this new technology in South Texas and apply this to other areas in which we operate. We use numerous recovery techniques, including gas lift, acid treatments, water flooding, and pressure maintenance to enhance crude oil and natural gas production in all of our core operating areas. We also fracture reservoir rock through the injection of high-pressure fluid, the installation of gravel packs, and the insertion of coiled-tubing velocity strings to enhance and maintain production.

Swift Energy's success at drilling both in South Texas and in Louisiana can be marked by requiring excellence in geosciences and engineering. This is accomplished by elevating the quality of engineering first and operations second, with a focus on continuing improvement. Specific drilling and completion guidelines and design specifications are developed and implemented as best practices and standards, respectively, from which all planning and execution is derived. The emphasis on well planning has permeated throughout the organization and the results of that planning constantly show up in performance across all operations. Lastly, the quality of the equipment and field personnel, together with a complete drilling process, is consistently enforced. This is the mixture of resources that aids Swift Energy in moving toward becoming a top tier company.

Operating Areas

The following table sets forth information regarding our 2013 year-end proved reserves from continuing operations of 219.2 MMBoe and production of 11.7 MMBoe by area:

Core Areas & Fields	Developed Reserves (MMBoe)	Undeveloped Reserves (MMBoe)	Total Proved Reserves (MMBoe)	% of Total Proved Reserves		Oil and NGLs as % of Reserves		% of Total Production		Oil and NGLs as % of Production	
Artesia Wells - Eagle Ford	9.6	14.8	24.4	11.1	%	48.9	%	24.3	%	49.7	%
AWP - Eagle Ford	11.6	28.1	39.7	18.1	%	70.1	%	17.8	%	71.1	%
AWP - Olmos	15.1	3.6	18.7	8.5	%	41.4	%	19.7	%	43.5	%
Fasken - Eagle Ford	10.3	77.3	87.6	40.0							