SWIFT ENERGY CO
Form 10-Q
May 06, 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 March 31, 2010
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

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 o 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)	37,819,571 Shares (Outstanding at April 30, 2010)

SWIFT ENERGY COMPANY

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

INDEX

2

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

	March 31, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$39,101	$38,469
Accounts receivable-		
Oil and gas sales	36,515	36,343
Joint interest owners	3,131	2,590
Other Receivables	9,245	15,340
Deferred tax assets	2,926	3,171
Other current assets	17,956	12,123
Current assets held for sale	564	564
Total Current Assets	109,438	108,600
Property and Equipment:		
Oil and gas, using full-cost accounting		
Proved properties	3,492,107	3,421,340
Unproved properties	72,400	71,640
	3,564,507	3,492,980
Furniture, fixtures, and other equipment	37,029	37,130
	3,601,536	3,530,110
Less – Accumulated depreciation, depletion, and amortization	(2,252,776)	(2,214,146)
	1,348,760	1,315,964
Other Assets:		
Deferred Charges	8,605	8,836
Other Long-Term assets	1,337	1,365
	9,942	10,201
	$1,468,140	$1,434,765
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$60,272	$60,823
Accrued capital costs	31,273	33,199
Accrued interest	10,439	3,745
Undistributed oil and gas revenues	5,773	5,837
Total Current Liabilities	107,757	103,604
Long-Term Debt	471,452	471,397
Deferred Income Taxes	132,606	123,577
Asset Retirement Obligation	56,193	55,298
Other Long-Term Liabilities	1,931	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, 38,248,380 and 37,887,126 shares issued, and 37,811,529 and 37,456,603 shares outstanding, respectively	382	379
Additional paid-in capital	555,920	551,606
Treasury stock held, at cost, 436,851 and 430,523 shares, respectively	(9,626)	(9,221)
Retained earnings	150,563	136,358
Other comprehensive income (loss)	962	(223)
	698,201	678,899
	$1,468,140	$1,434,765

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2010	2009
Revenues:		
Oil and gas sales	$110,025	$76,418
Price-risk management and other, net	(179)	(59)
	109,846	76,359
Costs and Expenses:		
General and administrative, net	9,251	8,419
Depreciation, depletion, and amortization	38,274	43,934
Accretion of asset retirement obligation	954	702
Lease operating cost	18,648	19,808
Severance and other taxes	11,572	8,686
Interest expense, net	8,326	7,467
Write-down of oil and gas properties	---	79,312
	87,025	168,328
Income (Loss) from Continuing Operations Before Income Taxes	22,821	(91,969)
Provision for Income Taxes (Benefit)	8,581	(32,966)
Income (Loss) from Continuing Operations	14,240	(59,003)
Loss from Discontinued Operations, net of taxes	(35)	(126)
Net Income (Loss)	$14,205	$(59,129)
Per Share Amounts-		
Basic: Income (Loss) from Continuing Operations	$0.37	$(1.90)
Loss from Discontinued Operations, net of taxes	(0.00)	(0.00)
Net Income (Loss)	$0.37	$(1.91)
Diluted: Income (Loss) from Continuing Operations	$0.37	$(1.90)
Loss from Discontinued Operations, net of taxes	(0.00)	(0.00)
Net Income (Loss)	$0.37	$(1.91)
Weighted Average Shares Outstanding	37,652	31,031

See accompanying Notes to Consolidated Financial Statements.

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 (33,174 shares) (2)	-	379	-	-	-	379
Purchase of treasury shares (65,663	-	-	(1,676)	-	-	(1,676)

shares) (2)						
Employee stock purchase plan (66,564 shares) (2)	1	950	-	-	-	951
Issuance of restricted stock (261,516 shares) (2)	2	(2)	-	-	-	-
Amortization of stock compensation (2)	-	2,745	-	-	-	2,745
Net income (2)	-	-	-	14,205	-	14,205
Other comprehensive income (2)	-	-	-	-	1,185	1,185
Total comprehensive income (2)						15,390
Balance, March 31, 2010 (2)	$ 382	$ 555,920	$ (9,626)	$ 150,563	$ 962	$ 698,201

(1)$.01 par value.
(2) Unaudited.

See accompanying Notes to Consolidated Financial Statements.

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

(in thousands)	Three Months Ended March 31, 2010	2009
Cash Flows from Operating Activities:		
Net income (loss)	$14,205	$(59,129)
Plus loss from discontinued operations, net of taxes	35	126
Adjustments to reconcile net income (loss) to net cash provided by operation activities -		
Depreciation, depletion, and amortization	38,274	43,934
Write-down of oil and gas properties	---	79,312
Accretion of asset retirement obligation	954	702
Deferred income taxes	10,692	(29,866)
Stock-based compensation expense	2,364	2,029
Other	(2,557)	9,172
Change in assets and liabilities-		
(Increase) decrease in accounts receivable	(713)	2,648
Increase (decrease) in accounts payable and accrued liabilities	(10,809)	536
Increase (decrease) in income taxes payable	126	(248)
Increase in accrued interest	6,694	1,518
Cash Provided by operating activities – continuing operations	59,265	50,734
Cash Provided by (used in) operating activities – discontinued operations	46	(244)
Net Cash Provided by Operating Activities	59,311	50,490
Cash Flows from Investing Activities:		
Additions to property and equipment	(63,386)	(103,370)
Proceeds from the sale of property and equipment	52	40
Cash used in investing activities – continuing operations	(63,334)	(103,330)
Cash provided by investing activities – discontinued operations	5,000	---
Net Cash Used in Investing Activities	(58,334)	(103,330)
Cash Flows from Financing Activities:		
Net proceeds from bank borrowings	---	56,000
Net proceeds from issuances of common stock	1,331	724
Purchase of treasury shares	(1,676)	(633)
Cash provided by (used in) financing activities – continuing operations	(345)	56,091
Cash provided by financing activities – discontinued operations	---	---
Net Cash Provided by (Used in) financing activities	(345)	56,091
Net Increase in Cash and Cash Equivalents	$632	$3,251
Cash and Cash Equivalents at Beginning of Period	38,469	283
Cash and Cash Equivalents at End of Period	$39,101	$3,534
Supplemental Disclosures of Cash Flows Information:		
Cash paid during period for interest, net of amounts capitalized	$1,340	$5,652

Cash paid during period for income taxes	$---	$---

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 other 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 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 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,

- 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 quarters ended March 31, 2010 and 2009, such internal costs capitalized totaled $6.0 million and $6.3 million, respectively. Interest costs are also capitalized to unproved oil and natural gas properties. For the quarters ended March 31, 2010 and 2009, capitalized interest on unproved properties totaled $1.8 million and $1.5 million, respectively. Interest not capitalized and general and administrative costs related to production and general corporate overhead are expensed as incurred.

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 period-end prices, 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 March 31, 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 March 31, 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 March 31, 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 March 31, 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 March 31, 2010 and December 31, 2009, the fair values of our senior notes due 2020, which were issued in November 2009, were $234.8 million, or 104% 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 March 31, 2010 and December 31, 2009, while the carrying value of our senior notes due 2020 was $221.5 million and $221.4 million at March 31, 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 March 31, 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” balances on the accompanying condensed consolidated balance sheets.

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 first quarter of 2010, we recognized a net loss of $0.5 million relating to our derivative activities. We did not recognize any gains or losses for the first quarter of 2009. 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 March 31, 2010, the Company had recorded $1.0 million, net of taxes of $0.6 million, of 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” for the three months of 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 March 31, 2010, we had natural gas price floors in effect for the contract months of April through June 2010 that cover natural gas production of 3,300,000 MMBtu from April through June 2010 with strike prices ranging between $4.55 and $5.00. We also had oil price floors in effect for the contract months of April through June 2010 that cover oil production of 339,000 Boe from April through June 2010 with strike prices ranging between $73.00 and $77.56.

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 loss, net of income tax” and recorded in “Price-risk management and other, net” on the accompanying consolidated statements of operations. The fair value 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 March 31, 2010 and December 31, 2009, was $2.0 million and $0.8 million, respectively and was recognized on the accompanying consolidated balance sheet in “Other current assets.” At March 31, 2010, we had $1.0 million in receivables for concluded natural gas hedges covering April 2010 production which were recognized on the accompanying balance sheet in “Other Receivables” and were subsequently collected in April 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 three 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 $3.0 million and $2.8 million in the first three 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 $10.9 million at March 31, 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. This benefit is likely to be recognized within the next 12 months due to expiration of the audit statutory period.

Our policy is to record interest and penalties relating to income taxes in income tax expense. As of March 31, 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, 2003 and 2006 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 March 31, 2010 and December 31, 2009 are liabilities of approximately $3.7 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 March 31, 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, 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 March 31, 2010, we recorded $1.0 million, net of taxes of $0.6 million, of derivative gains in "Accumulated other comprehensive income, 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)
Change in fair value of cash flow hedges	1,446	(534)	912
Effect of cash flow hedges settled during the period	432	(159)	273
Other comprehensive income at March 31, 2010	$ 1,524	$ 562	$ 962

Total comprehensive income for the first quarter of 2010 was $15.4 million, while total comprehensive loss was $59.1 million for the first quarter of 2009.

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	954	702
Liabilities incurred for new wells and facilities construction	25	3,234
Reductions due to sold and abandoned wells	(75)	(302)
Asset Retirement Obligation as of March 31	$ 65,140	$ 52,419

At March 31, 2010 and December 31, 2009, approximately $8.9 million, 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 June 2008, the FASB issued guidance contained in FASB ASC 260-10. Under the guidance, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share (EPS) pursuant to the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. This guidance was adopted on January 1, 2009. The adoption of this guidance did not have a material impact on our financial position, results of operations, or earnings per share.

On January 1, 2009 we adopted the guidance contained in FASB ASC 820-10, for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, at least annually. On January 1, 2010, we adopted subsequent guidance contained within ASU No. 2010-06 related to improving disclosures about fair value measurements. The adoption of these guidelines did not have a material impact on our financial position or results of operations.

In May 2009, the FASB issued guidance contained in FASB ASC 855-10. The guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. We adopted the guidance for the period ending June 30, 2009; and the adoption of this guidance did not have an impact on our financial position or results of operations.

In June 2009, the FASB issued guidance now codified as FASB ASC Topic 105, "Generally Accepted Accounting Principles," as the single source of authoritative nongovernmental U.S. GAAP. FASB ASC Topic 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the FASB Codification will be considered non-authoritative. These provisions of FASB ASC Topic 105 are effective for interim and annual periods ending after September 15, 2009 and, accordingly, are effective for our current fiscal reporting period. The adoption of this pronouncement did not have an impact on the Company's financial position or results of operations, but will impact our financial reporting process by eliminating all references to pre-codification standards. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative.

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 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 months ended March 31, 2010, we did not recognize any excess tax benefit or shortfall. For the three months ended March 31, 2009, we recognized a tax benefit shortfall of $1.5 million as restricted stock vested at a lower value than the value used to record compensation expense at the date of grant, offset by a reduction to additional paid-in capital.

Net cash proceeds from the exercise of stock options were $0.4 million for the three months ended March 31, 2010, with an actual income tax benefit of $0.1 million. No stock options were exercised during the three month period ended March 31, 2009.

Stock compensation expense for both stock options and restricted stock issued to both employees and non-employees, which were recorded in “General and administrative, net” in the accompanying condensed consolidated statements of income, were $2.1 million and $1.8 million for the quarters ended March 31, 2010 and 2009, respectively, and stock compensation recorded in lease operating cost was $0.1 million for both of the quarters ended March 31, 2010 and 2009. We also capitalized $0.4 million of stock compensation in the both of the quarters ended March 31, 2010 and 2009. We view all awards of stock compensation as a single award with an expected life equal to the average expected life of component awards and amortize the award on a straight-line basis over the service period of the award.

Stock Options

We use the Black-Scholes-Merton option pricing model to estimate the fair value of stock option awards with the following weighted-average assumptions for the indicated periods:

	Three Months Ended March 31,	
	2010	2009
Dividend yield	0%	0%
Expected volatility	62.8%	50.5%
Risk-free interest rate	2.2%	1.8%
Expected life of options (in years)	4.4	4.5

Weighted-average grant-date fair value	$ 12.65	$ 6.32

The expected term for grants issued is based on an analysis of historical employee exercise behavior and considered all relevant factors including expected future employee exercise behavior. We have analyzed historical volatility, and based on an analysis of all relevant factors, we have used a 5.5 year look-back period to estimate expected volatility of our 2010 and 2009 stock option grants.

At March 31, 2010, there was $3.9 million of unrecognized compensation cost related to stock options which are expected to be recognized over a weighted-average period of 1.7 years. The following table represents stock option activity for the three months ended March 31, 2010:

	Shares	Wtd. Avg. Exer. Price
Options outstanding, beginning of period	1,289,194	$29.72
Options granted	258,501	$24.78
Options canceled	(24,192)	$45.33
Options exercised	(49,336)	$15.30
Options outstanding, end of period	1,474,167	$29.06
Options exercisable, end of period	882,517	$30.86

The aggregate intrinsic value and weighted average remaining contract life of options outstanding and exercisable at March 31, 2010 was $10.4 million and 6.0 years and $5.9 million and 4.1 years, respectively. Total intrinsic value of options exercised during the three months ended March 31, 2010 was $0.7 million.

Restricted Stock

The plans, as described in Note 6 of our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, allow for the issuance of restricted stock awards that 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 March 31, 2010, we had unrecognized compensation expense of approximately $11.4 million associated with these awards which are expected to be recognized over a weighted-average period of 2.0 years. The grant date fair value of shares vested during the three months ended March 31, 2010 was $7.6 million.

The following table represents restricted stock activity for the three months ended March 31, 2010:

	Shares	Wtd. Avg. Grant Price
Restricted shares outstanding, beginning of period	703,856	$24.15

Restricted shares granted	346,500	$24.61
Restricted shares canceled	(23,913)	$25.57
Restricted shares vested	(261,516)	$28.91
Restricted shares outstanding, end of period	764,927	$22.69

(4) Earnings Per Share

The Company adopted guidance in FASB ASC 260-10 on January 1, 2009. Under the guidance, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share (EPS) pursuant to the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. Unvested share-based payments that contain non-forfeitable rights to dividends or dividend equivalents are now included in the basic weighted average share calculation under the two-class method. These shares were previously included in the diluted weighted average share calculation under the treasury stock method.

Basic earnings per share ("Basic EPS") has been computed using the weighted average number of common shares outstanding during each period. As we recognized a net loss for the first three months of 2009, the unvested share-based payments and stock options were not recognized in diluted earnings per share ("Diluted EPS") calculations as they would be antidilutive. Diluted EPS for the quarter ended March 31, 2010 assumes, as of the beginning of the period, exercise of stock options using the treasury stock method. Certain of our stock options that would potentially dilute Basic EPS in the future were also antidilutive for the three month period ended March 31, 2010, 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 month periods ended March 31, 2010 and 2009 (in thousands, except per share amounts):

	2010			2009		
	Income from continuing operations	Shares	Per Share Amount	Income from continuing operations	Shares	Per Share Amount
Basic EPS:						
Income (Loss) from continuing operations, and Share Amounts	$14,240	37,652		$(59,003)	31,031	
Less: Income (Loss) from continuing operations allocated to unvested shareholders	(269)	---		---	---	
Income (Loss) from continuing operations allocated to common shares	$13,971	37,652	$0.37	$(59,003)	31,031	$(1.90)
Dilutive Securities:						
Plus: Income (Loss) from continuing operations allocated to unvested shareholders	269	---		---	---	
Less: Income (Loss) from continuing operations re-allocated to unvested shareholders	(268)	---		---	---	
Stock Options	---	218		---	---	
Diluted EPS:						
Income (Loss) from continuing operations allocated to common shares, and assumed Share conversions	$13,972	37,870	$0.37	$(59,003)	31,031	$(1.90)

Options to purchase approximately 1.5 million shares at an average exercise price of $29.06 were outstanding at March 31, 2010, while options to purchase 1.4 million shares at an average exercise price of $29.18 were outstanding at March 31, 2009. Approximately 1.3 million stock options to purchase shares were not included in the computation of Diluted EPS for the three months ended March 31, 2010, because these stock options were antidilutive, in that the sum of the stock option price, unrecognized compensation expense and excess tax benefits recognized as proceeds in the treasury stock method was greater than the average closing market price for the common shares during those periods. All of the 1.4 million stock options to purchase shares outstanding at March 31, 2009 were not included in the computation Diluted EPS for the three months ended March 31, 2009, as they would be antidilutive given the net loss from continuing operations.

(5) Long-Term Debt

Our long-term debt as of March 31, 2010 and December 31, 2009, was as follows (in thousands):

	March 31,	December 31,

	2010	2009
Bank Borrowings	$---	$---
7-1/8% senior notes due 2017	250,000	250,000
8-7/8% senior notes due 2020	221,452	221,397
Long-Term Debt	$471,452	$471,397

15

Bank Borrowings. At March 31, 2010 and December 31, 2009 we had no borrowings under our $500.0 million credit facility with a syndicate of ten banks that has a borrowing base of $277.5 million, and expires in October 2011. In November 2009, the borrowing base and commitment amount were re-set at $277.5 million, a reduction from previous levels due to the issuance of our Senior Notes due 2020, and this amount was re-affirmed in May 2010. Effective November 1, 2009, the interest rate is either (a) the lead bank's prime rate plus applicable margin or (b) the adjusted London Interbank Offered Rate ("LIBOR") plus the applicable margin depending on the level of outstanding debt. The applicable margins have increased to escalating rates of 100 to 250 basis points above the lead bank's prime rate and escalating rates of 200 to 350 basis points for LIBOR rate loans. The commitment fee associated with the unfunded portion of the borrowing base is set at 50 basis points. At March 31, 2010, the lead bank's prime rate was 4.25%.

The terms of our credit facility include, among other restrictions, a limitation on the level of cash dividends (not to exceed $15.0 million in any fiscal year), a remaining aggregate limitation on purchases of our stock of $50.0 million, requirements as to maintenance of certain minimum financial ratios (principally pertaining to adjusted working capital ratios and EBITDAX) and limitations on incurring other debt. Since inception, no cash dividends have been declared on our common stock. We are currently in compliance with the provisions of this agreement. The credit facility is secured by our domestic oil and natural gas properties. Under the terms of the credit facility, we can increase the commitment amount to the total amount of the borrowing base at our discretion, subject to the terms of the credit agreement. The borrowing base amount is re-determined at least every six months and the next scheduled borrowing base review is in November 2010.

Interest expense on the credit facility, including commitment fees and amortization of debt issuance costs, totaled $0.4 million and $1.4 million for the first quarters of 2010 and 2009, respectively. The amount of commitment fees included in interest expense, net was $0.3 million and $0.1 million for the three month periods ended March 31, 2010 and 2009, respectively.

Senior Notes Due 2020. These notes consist of $225 million of 8-7/8% senior notes issued at 98.389% of par, which equates to an effective yield to maturity of 9-1/8%. The notes were issued on November 25, 2009 with a discount of $3.6 million and will mature on January 15, 2020. The discount of $3.6 million is recorded in "Long-Term Debt" on our balance sheet and will be amortized over the life of the note. The notes are senior unsecured obligations that rank equally with all of our existing and future senior unsecured indebtedness, are effectively subordinated to all our existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness, including borrowing under our bank credit facility, and will rank senior to any future subordinated indebtedness of Swift Energy. Interest on these notes is payable semi-annually on January 15 and July 15 and commenced on November 25, 2009. On or after January 15, 2015, we may redeem some or all of these notes, with certain restrictions, at a redemption price, plus accrued and unpaid interest, of 104.438% of principal, declining in twelve-month intervals to 100% in 2018 and thereafter. In addition, prior to January 15, 2013, we may redeem up to 35% of the principal amount of the notes with the net proceeds of qualified offerings of our equity at a redemption price of 108.875% of the principal amount of the notes, plus accrued and unpaid interest. We incurred approximately $5.0 million of debt issuance costs related to these notes, which is included in "Other assets – Deferred Charges" on the accompanying consolidated balance sheets and will be amortized to interest expense, net over the life of the notes using the effective interest method. In the event of certain changes in control of Swift Energy, each holder of notes will have the right to require us to repurchase all or any part of the notes at a purchase price in cash equal to 101% of the principal amount, plus accrued and unpaid interest to the date of purchase. The terms of these notes include, among other restrictions, a limitation on how much of our own common stock we may repurchase. We are currently in compliance with the provisions of the indenture governing these senior notes.

Interest expense on the 8-7/8% senior notes due 2020, including amortization of debt issuance costs and debt discount, totaled $5.1 million for the three months ended March 31, 2010.

Senior Notes Due 2017. These notes consist of $250.0 million of 7-1/8% senior notes due 2017, which were issued on June 1, 2007 at 100% of the principal amount and will mature on June 1, 2017. The notes are senior unsecured obligations that rank equally with all of our existing and future senior unsecured indebtedness, are effectively subordinated to all our existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness, including borrowing under our bank credit facility, and will rank senior to any future subordinated indebtedness of Swift Energy. Interest on these notes is payable semi-annually on June 1 and December 1, and commenced on December 1, 2007. On or after June 1, 2012, we may redeem some or all of these notes, with certain restrictions, at a redemption price, plus accrued and unpaid interest, of 103.563% of principal, declining in twelve-month intervals to 100% in 2015 and thereafter. In addition, prior to June 1, 2010, we may redeem up to 35% of the principal amount of the notes with the net proceeds of qualified offerings of our equity at a redemption price of 107.125% of the principal amount of the notes, plus accrued and unpaid interest. We incurred approximately $4.2 million of debt issuance costs related to these notes, which is included in “Debt issuance costs” on the accompanying consolidated balance sheets and will be amortized to interest expense, net over the life of the notes using the effective interest method. In the event of certain changes in control of Swift Energy, each holder of notes will have the right to require us to repurchase all or any part of the notes at a purchase price in cash equal to 101% of the principal amount, plus accrued and unpaid interest to the date of purchase. The terms of these notes include, among other restrictions, a limitation on how much of our own common stock we may repurchase. We are currently in compliance with the provisions of the indenture governing these senior notes

Interest expense on the 7-1/8% senior notes due 2017, including amortization of debt issuance costs, totaled $4.5 million for the three months ended March 31, 2010 and 2009.

Senior Notes Due 2011. These notes consisted of $150.0 million of 7-5/8% senior subordinated notes due July 2011, which were issued on June 23, 2004. Interest on these notes was payable semiannually on January 15 and July 15. As of December 10, 2009, we redeemed all $150.0 million of these notes. In the fourth quarter of 2009, we recorded a charge of $4.0 million related to the redemption of these notes. The costs were comprised of approximately $2.9 million of premium paid to redeem the notes, and $1.1 million to write-off unamortized debt issuance costs.

Interest expense on the 7-5/8% senior notes due 2011, including amortization of debt issuance costs totaled $3.0 million for the three months ended March 31, 2009.

The maturities on our long-term debt are $250.0 million in 2017 and $225.0 million in 2020.

We have capitalized interest on our unproved properties in the amount of $1.8 million and $1.5 million for the three months ended March 31, 2010 and 2009, respectively.

(6) Discontinued Operations

In December 2007, Swift Energy agreed to sell substantially all of our New Zealand assets. Accordingly, the New Zealand operations have been classified as discontinued operations in the consolidated statements of operations and cash flows and the assets and associated liabilities have been classified as held for sale in the consolidated balance sheets. In June 2008, Swift Energy completed the sale of substantially all of our New Zealand assets for $82.7 million in cash after purchase price adjustments. Proceeds from this asset sale were used to pay down a portion of our credit facility. In August 2008, we completed the sale of our remaining New Zealand permit for $15.0 million; with three $5.0 million payments to be received six months after the sale, 18 months after the sale, and 30 months after the sale. All payments under this sale agreement are secured by unconditional letters of credit, with the first two payments received in February 2009 and February 2010, respectively. Due to ongoing litigation, we have evaluated the situation and determined that certain revenue recognition criteria have not been met at this time for the permit sale, and have deferred the potential gain on this property sale pending final resolution of this litigation.

In accordance with guidance contained in FASB ASC 360-10, the results of operations for the New Zealand operations have been excluded from continuing operations and reported as discontinued operations for the current and prior periods. Furthermore, the assets included as part of this divestiture have been reclassified as held for sale in the consolidated balance sheets.

The book value of our remaining New Zealand permit is approximately $0.6 million at March 31, 2010.

The following table summarizes the amounts included in “Loss from discontinued operations, net of taxes” for all periods presented. These revenues and expenses were historically reported under our New Zealand operating segment, and are now reported as discontinued operations (in thousands except per share amounts):

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Other revenues	$ 19	$ 21
Total revenues	19	$ 21
Other operating expenses	54	76
Total expenses	$ 54	$ 76
Loss from discontinued operations before income taxes	(35)	(55)
Income tax expense	---	71
Loss from discontinued operations, net of taxes	$ (35)	$ (126)
Loss per common share from discontinued operations-diluted	$ (0.00)	$ (0.00)
Cash flow provided by (used in) operating activities	$ 46	$ (244)

(7) Acquisitions and Dispositions

In August 2009, within our Central Louisiana/East Texas core area, we entered into a joint venture agreement with a large independent oil and gas producer active in the area for development and exploitation in and around the Burr Ferry field in Vernon Parish, LA. The Company, as fee mineral owner, leased a 50% working interest in approximately 33,623 gross acres to the joint venture partner. Swift Energy retains a 50% working interest in the joint venture acreage as well as its fee mineral royalty rights, and received approximately $4.2 million related to this transaction. We used the proceeds from this joint venture to pay down a portion of the outstanding balance on our credit facility.

In November 2009, within our South Texas core area, we entered into a joint venture agreement with a large independent oil and gas producer active in the area for development and exploitation in and around the Eagle Ford Shale in McMullen County, TX. The Company, as fee mineral owner leased a 50% working interest in approximately 26,000 gross acres to the joint venture partner. Swift Energy retains a 50% working interest in the joint venture acreage as well as its fee mineral royalty rights, and received approximately $26 million in cash consideration as well as consideration for approximately $13 million to fund future capital expenditures in the joint venture agreement, related to this transaction. As of March 31, 2010 we had approximately $7.4 million of the $13 million consideration remaining in our balance sheet. We used the proceeds from this joint venture to pay down a portion of the outstanding balance on our credit facility.

(8) Fair Value Measurements

FASB ASC 820-10 defines fair value, establishes guidelines for measuring fair value and expands disclosure about fair value measurements. It does not create or modify any current GAAP requirements to apply fair value accounting. However, it provides a single definition for fair value that is to be applied consistently for all prior accounting pronouncements. The adoption of this guidance did not have a material impact on our financial position or results of operations.

The following tables present our assets that are measured at fair value on a recurring basis during the three months ended March 31, 2010 and are categorized using the fair value hierarchy. The fair value of our oil and natural gas derivatives are computed using the Black-Scholes-Merton option pricing model and are periodically verified against quotes from brokers. The fair value hierarchy has three levels based on the reliability of the inputs used to determine the fair value (in millions):

		Fair Value Measurements at March 31, 2010		
Assets	Total	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	$ 37.2	$ 37.2	$ ---	$ ---
Oil and Natural Gas Derivatives	$ 2.0	$ ---	$ ---	$ 2.0

The table below presents a reconciliation for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended December 31, 2009 (in millions):

Fair Value Reconciliation at March 31, 2010 – YTD	Hedging Contracts
Balance as of December 31, 2009	$ 0.8
Total gains (losses) (realized or unrealized):	
Included in earnings (in Price-risk management and other, net)	(0.5)
Included in other comprehensive income	1.9
Purchases, issuances and settlements	(0.2)
Transfers in and out of Level 3	---
Balance as of March 31, 2010	$ 2.0
The approximate amount of total gains for the period included in earnings (in Price Risk Management and Other, net) attributable to the change in unrealized gains relating to derivatives still held at March 31, 2010	$ (0.1)

(9) Condensed Consolidating Financial Information

Swift Energy Company is the issuer and Swift Energy Operating, LLC (a wholly owned indirect subsidiary of Swift Energy Company) is a guarantor of our senior subordinated notes due 2017 and 2020. The guarantees on our senior subordinated notes due 2017 and 2020 are full and unconditional. The following is condensed consolidating financial information for Swift Energy Company, Swift Energy Operating, LLC, and other subsidiaries:

Condensed Consolidating Balance Sheets

(in thousands)	March 31, 2010				
	Swift Energy Company (Parent and Co-obligor)	Swift Energy Operating, LLC (Co-obligor)	Other Subsidiaries	Eliminations	Swift Energy Company Consolidated