SWIFT ENERGY CO
Form 10-K
February 29, 2008

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

Form 10-K

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

For the Fiscal Year Ended December 31, 2007

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 þ No o

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. [þ]

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

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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 29, 2007, the last business day of June 2007, was approximately $1,263,629,153.

The number of shares of common stock outstanding as of January 31, 2008 was 30,242,157.

Documents Incorporated by Reference

Document	Incorporated as to
Proxy Statement for the Annual Meeting of Shareholders to be held May 13, 2008	Part III, Items 10, 11, 12, 13 and 14

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Form 10-K
Swift Energy Company and Subsidiaries

10-K Part and Item No.

(1) Incorporated by reference from Proxy Statement for the Annual Meeting of Shareholders to be held May 13, 2008

PART I

Item 1. Business

See pages 24 and 25 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 onshore and in the inland waters of Louisiana and Texas. Swift Energy was founded in 1979 and is headquartered in Houston, Texas. In December 2007, we agreed to sell the majority of our New Zealand assets with an expected closing date towards the end of the first quarter of 2008. At year-end 2007, we had estimated proved reserves from our domestic continuing operations of 133.8 MMBoe with a PV-10 of $3.8 billion, while our total estimated proved reserves, both domestically and in New Zealand, were 150.1 MMBoe with a PV-10 Value of $3.9 billion (PV-10 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, the standardized measure). Our total proved reserves at year-end 2007 were comprised of approximately 43% crude oil, 44% natural gas, and 13% NGLs; and 45% of our total proved reserves were proved developed. Our proved reserves are concentrated with 59% of the total in Louisiana, 29% in Texas, 1% in other states, and 11% in New Zealand.

We currently focus primarily on development and exploration of fields in three domestic regions:

- South Louisiana Region

Bay de Chene Area
Bayou Penchant Area
Bayou Sale Area
Cote Blanche Island Area
High Island Area
Horseshoe Bayou Area
Jeanerette Area
Lake Washington Area

- South Texas Region

AWP Olmos Area
Cotulla Area

- Toledo Bend Region

Brookeland Area
Masters Creek Area
South Bearhead Creek Area

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 domestic proved reserves from 99.0 MMBoe to 133.8 MMBoe over the five-year period ended December 31, 2007. Over the same period, our annual domestic production has grown from 5.7 MMBoe to 10.6 MMBoe. Our growth in reserves and production over this five-year period has resulted primarily from drilling activities and acquisitions in our three core domestic regions. During 2007, our domestic proved reserves increased by 13%, due to acquisitions of properties in our South Texas region and our 2007 drilling results. Based on our long-term historical performance and our business strategy going forward, we believe that we have the opportunities, experience, and knowledge to grow both our reserves and production.

Balanced Approach to Growth

Our strategy is to increase our reserves and production through both drilling and acquisitions, shifting the balance between the two activities in response to market conditions and strategic opportunities. In general, we focus on drilling in our anchor assets in each of our three domestic regions when oil and natural gas prices are strong. When prices weaken and the per unit cost of acquisitions becomes more attractive, or a strategic opportunity exists, we also focus on acquisitions. We believe this balanced approach has resulted in our ability to grow in a strategically cost effective manner, and in 2007 we replaced 245% of our domestic 2007 production and over the last five years we have replaced 187% of our domestic production.

For 2008, we are targeting total production from continuing operations to increase 10% to 15% and proved reserves from continuing operations to increase 5% to 9% over 2007 levels.

Our 2008 capital expenditures are currently budgeted at $425 million to $475 million, net of minor non-core dispositions and excluding any property acquisitions.

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 adverse weather conditions, commodity market factors, and governmental regulations, could limit our ability to drill wells and acquire proved properties in the future. We have included below 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. Many factors will impact our ability to access these reserves, such as availability of capital, commodity prices, new and existing government regulations, adverse weather conditions, competition within our industry, the requirement of new or upgraded infrastructure at the production site, and technological advances.

Concentrated Focus on Regions with Operational Control

The concentration of our operations in three domestic regions 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 for continuing operations, excluding taxes, were $6.68, $5.29, and $4.87 per Boe in 2007, 2006, and 2005, respectively. Each of our three regions includes at least one anchor asset, previously termed a core area, and several diversity 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 type assets. The value of this concentration is enhanced by our operational control of 96% of our proved oil and natural gas reserves base as of December 31, 2007. 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 three domestic regions. For instance, the Lake Washington field was discovered in the 1930s. We acquired our properties in this area for $30.5 million in 2001. Since that time, we have increased our average daily net production from less than 700 Boe to 15,900

Boe for the quarter ended December 31, 2007. We have also increased our proved reserves in the area from 7.7 million Boe to approximately 36.4 million Boe as of December 31, 2007. When we first acquired our interests in AWP Olmos, Brookeland, and Masters Creek, these areas also had significant additional development potential. In December 2004, we acquired our Bay de Chene and Cote Blanche Island fields which hold mainly proved undeveloped reserves and we began our initial development activities of these properties in 2006. In November 2005, we acquired our South Bearhead Creek field and then in October 2006, we acquired interests in five fields in South Louisiana which have significant development potential. In October 2007, we acquired interests in three South Texas properties in the Maverick Basin that total approximately 82,000 acres. These properties are located in the Sun TSH area in La Salle County, the Briscoe Ranch area primarily in Dimmitt County, and the Las Tiendas area in Webb County. We intend to continue acquiring large acreage positions where we can grow production by applying advanced technologies and recovery methods using our experience and knowledge developed in our three domestic regions.

Maintain Financial Flexibility and Disciplined Capital Structure

We practice a disciplined approach to financial management and have historically maintained a disciplined capital structure to provide us with the ability to execute our business plan. As of December 31, 2007, our debt to capitalization was approximately 41%, while our debt to domestic proved reserves ratio was $4.39 per Boe, and our debt to domestic PV-10 ratio was 15%. We plan to maintain a capital structure that provides financial flexibility through the prudent use of capital, aligning our capital expenditures to our cash flows, and maintaining a strategic hedging program. The combination of hedging with collars, floors, and forward sales will provide for a more stable cash flow for the periods covered as described in the "Commodity Risk" section of this report.

Experienced Technical Team and Technology Utilization

We employ 61 oil and gas professionals, including geophysicists, petrophysicists, geologists, petroleum engineers, and production and reservoir engineers, who have an average of approximately 24 years of experience in their technical fields and have been employed by us for an average of over five 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 seismic technology to enhance the results of our drilling and production efforts, including two and three-dimensional seismic acquisition, pre-stack image enhancement reprocessing, amplitude versus offset datasets, coherency cubes, and detailed field reservoir depletion planning. In 2004, we completed our 3-D seismic survey covering our Lake Washington area. In 2007 we utilized this seismic data to drill all of our exploratory and development wells. In 2005, we began a seismic program that encompasses 77 square miles in our Cote Blanche Island area, which was completed in 2006 and have used this data to drill new wells in that area. We now have seismic data covering over 4,000 square miles in South Louisiana that has been merged into two data sets, inclusive of data covering five fields we acquired in 2006 that will form the base dataset for our regional exploration and development program. This data will be analyzed over the next several years, feeding our acquisition and organic growth led strategies.

We use various recovery techniques, including gas lift, water flooding, pressure maintenance, and acid treatments to enhance crude oil and natural gas production. We also fracture reservoir rock through the injection of high-pressure fluid, install gravel packs, and insert coiled-tubing velocity strings to enhance and maintain production. We believe that the application of fracturing and coiled-tubing technology has resulted in significant increases in production and decreases in completion and operating costs, particularly in our AWP Olmos area.

We also employ measurement-while-drilling techniques extensively in our South Louisiana region, which allows us to guide the drill bit during the drilling process. This technology allows the well bore path to be steered parallel to the salt face and to intersect multiple targeted sands in a single well bore.

Item 2. Properties

Domestic Operating Areas (Continuing Operations)

The following table sets forth information regarding our 2007 year-end proved reserves from continuing operations of 133.8 MMBoe and production of 10.6 MMBoe by area:

Area	Developed (MMBoe)	Undeveloped (MMBoe)	Total (MMBoe)	% of Domestic Reserves	% of Domestic Production	% Oil and NGLs
Lake Washington	18.5	17.9	36.4	27.2%	62.0%	92.1%
Bay de Chene	2.3	2.4	4.7	3.5%	5.7%	39.9%
Other South Louisiana	7.3	25.2	32.5	24.3%	9.1%	40.1%
Total South Louisiana	28.1	45.5	73.6	55.0%	76.8%	65.8%
AWP	16.3	6.1	22.4	16.8%	10.7%	29.1%
Cotulla	9.5	6.9	16.4	12.2%	2.8%	51.5%
Other South Texas	0.3	0.1	0.4	0.3%	0.8%	5.8%
Total South Texas	26.1	13.1	39.2	29.3%	14.3%	38.2%
Austin Chalk	4.7	7.9	12.6	9.4%	4.9%	
						64.3%
South Bearhead Creek	4.1	2.7	6.8	5.1%	3.3%	
						67.5%
Total Toledo Bend	8.8	10.6	19.4	14.5%	8.2%	
						65.4%
Total	63.0	69.2	132.2	98.8%	99.2%	57.6
Total Louisiana	34.6	53.5	88.1			