SWIFT ENERGY CO
Form 10-Q
November 03, 2016
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 September 30, 2016
Commission File Number 1-8754
SWIFT ENERGY COMPANY
(Exact Name of Registrant as Specified in Its Charter)

Delaware	20-3940661
(State of Incorporation)	(I.R.S. Employer Identification No.)

17001 Northchase Drive, Suite 100
Houston, Texas 77060
(281) 874-2700
(Address and telephone number of principal executive offices)
Securities registered pursuant to Section 12(b) of the Act:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer o Accelerated Filer þ 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 by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d)of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
Yes þ No o

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) 10,034,354 Shares outstanding at November 1, 2016

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SWIFT ENERGY COMPANY

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016
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Condensed Consolidated Balance Sheets
Swift Energy Company and Subsidiaries (in thousands, except share amounts)

	Successor September 30, 2016 (Unaudited)	Predecessor December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,447	$ 29,460
Accounts receivable, net	21,343	21,704
Other current assets	3,247	10,683
Total Current Assets	27,037	61,847
Property and Equipment:		
Property and Equipment, including $47,310 and $18,839 of unproved property costs not being amortized at the end of each period	569,325	6,035,757
Less – Accumulated depreciation, depletion, amortization & impairment	(160,117)	(5,577,854)
Property and Equipment, Net	409,208	457,903
Other Long-Term Assets	9,203	5,248
Total Assets	$ 445,448	$ 524,998
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 33,394	$ 7,663
Accrued capital costs	4,295	—
Accrued interest	1,704	490
Undistributed oil and gas revenues	10,441	—
Current portion of long-term debt	—	324,900
Total Current Liabilities	49,834	333,053
Long-Term Debt	254,000	—
Asset Retirement Obligations	55,361	56,390
Other Long-Term Liabilities	2,929	3,891
Liabilities subject to compromise	—	984,388
Commitments and Contingencies (Note 10)		
Stockholders' Equity (Deficit):		
Predecessor Preferred stock, $.01 par value, 5,000,000 shares authorized, none outstanding	—	—
Predecessor Common stock, $.01 par value, 150,000,000 shares authorized, 44,771,258 shares issued and 44,591,863 shares outstanding	—	448
Predecessor Additional paid-in capital	—	776,358
Predecessor Treasury stock held, at cost, 179,395 shares	—	(2,491)
Successor Preferred stock, $.01 par value, 10,000,000 shares authorized, none outstanding	—	—
Successor Common stock, $.01 par value, 40,000,000 shares authorized, 10,000,001 shares issued and 10,000,001 shares outstanding	100	—
Successor Additional paid-in capital	232,431	—
Accumulated deficit	(149,207)	(1,627,039)
Total Stockholders' Equity (Deficit)	83,324	(852,724)

Total Liabilities and Stockholders' Equity (Deficit)	$ 445,448	$ 524,998

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Successor Three Months Ended September 30, 2016	Predecessor Three Months Ended September 30, 2015
Revenues:		
Oil and gas sales	$ 47,959	$ 60,024
Price-risk management and other, net	2,632	92
Total Revenues	50,591	60,116
Costs and Expenses:		
General and administrative, net	11,691	8,679
Depreciation, depletion, and amortization	13,287	35,606
Accretion of asset retirement obligation	1,099	1,410
Lease operating costs	9,481	17,990
Transportation and gas processing	4,883	5,446
Severance and other taxes	2,683	4,613
Interest expense, net	5,880	19,438
Write-down of oil and gas properties	—	321,522
Loss on reorganization items, net	1,193	—
Total Costs and Expenses	50,197	414,704
Income (Loss) Before Income Taxes	394	(354,588)
Provision (Benefit) for Income Taxes	—	—
Net Income (Loss)	$ 394	$ (354,588)
Per Share Amounts-		
Basic: Net Income (Loss)	$ 0.04	$ (7.96)
Diluted: Net Income (Loss)	$ 0.04	$ (7.96)
Weighted Average Shares Outstanding - Basic	10,000	44,546
Weighted Average Shares Outstanding - Diluted	10,361	44,546

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Successor	Predecessor	
	Period from April 23, 2016 through September 30, 2016	Period from January 1, 2016 through April 22, 2016	Nine Months Ended September 30, 2015
Revenues:			
Oil and gas sales	$78,540	$43,027	$195,663
Price-risk management and other, net	(7,296)	(245)	(1,041)
Total Revenues	71,244	42,782	194,622
Costs and Expenses:			
General and administrative, net	15,919	9,245	31,525
Depreciation, depletion, and amortization	26,621	20,439	138,392
Accretion of asset retirement obligation	1,931	1,610	4,156
Lease operating costs	17,262	14,933	54,188
Transportation and gas processing	9,069	6,090	15,855
Severance and other taxes	4,547	3,917	14,169
Interest expense, net	10,137	13,347	56,407
Write-down of oil and gas properties	133,496	77,732	1,084,595
(Gain) loss on reorganization items, net	1,469	(956,142)	—
Total Costs and Expenses, Net of Gains	220,451	(808,829)	1,399,287
Income (Loss) Before Income Taxes	(149,207)	851,611	(1,204,665)
Provision (Benefit) for Income Taxes	—	—	(80,133)
Net Income (Loss)	$(149,207)	$851,611	$(1,124,532)
Per Share Amounts-			
Basic: Net Income (Loss)	$(14.92)	$19.06	$(25.31)
Diluted: Net Income (Loss)	$(14.92)	$18.64	$(25.31)
Weighted Average Shares Outstanding - Basic	10,000	44,692	44,431
Weighted Average Shares Outstanding - Diluted	10,000	45,697	44,431

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Total
Balance, December 31, 2015 (Predecessor)	$ 448	$776,358	$(2,491)	$(1,627,039)	$(852,724)
Purchase of treasury shares (65,170 shares)	—	—	(5)	—	(5)
Issuance of restricted stock (229,690 shares)	2	(2)	—	—	—
Amortization of share-based compensation	—	1,118	—	—	1,118
Net Income	—	—	—	851,611	851,611
Balance, April 22, 2016 (Predecessor)	$ 450	$777,474	$(2,496)	$(775,428)	$—
Cancellation of Predecessor equity	$ (450)	$(777,474)	$2,496	$775,428	$—
Balance, April 22, 2016 (Predecessor)	$ —	$—	$—	$—	$—
Issuance of Successor common stock & warrants	$ 100	$229,299	$—	$—	$229,399
Balance, April 22, 2016 (Successor)	$ 100	$229,299	$—	$—	$229,399
Amortization of share-based compensation	—	3,132	—	—	3,132
Net Loss	—	—	—	(149,207)	(149,207)
Balance, September 30, 2016 (Successor)	$ 100	$232,431	$—	$(149,207)	$83,324

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Successor	Predecessor	
	Period from April 23, 2016 through September 30, 2016	Period from January 1, 2016 through April 22, 2016	Nine Months Ended September 30, 2015
Cash Flows from Operating Activities:			
Net income (loss)	$(149,207)	$851,611	$(1,124,532)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities-			
Depreciation, depletion, and amortization	26,621	20,439	138,392
Write-down of oil and gas properties	133,496	77,732	1,084,595
Accretion of asset retirement obligations	1,931	1,610	4,156
Deferred income taxes	—	—	(80,133)
Share-based compensation expense	3,132	886	3,288
Loss (gain) on derivatives	7,308	—	(271)
Cash settlements on derivatives	(1,100)	—	2,299
Reorganization items (non-cash)	—	(977,696)	—
Other	1,721	229	1,599
Change in operating assets and liabilities-			
(Increase) decrease in accounts receivable and other current assets	14,669	(5,474)	11,841
Increase (decrease) in accounts payable and accrued liabilities	(10,202)	(10,495)	(4,768)
Increase (decrease) in income taxes payable	—	—	(450)
Increase (decrease) in accrued interest	1,041	(308)	(7,606)
Net Cash Provided by (Used in) Operating Activities	29,410	(41,466)	28,410
Cash Flows from Investing Activities:			
Additions to property and equipment	(36,794)	(24,530)	(126,752)
Proceeds from the sale of property and equipment	594	48,661	977
Net Cash Provided by (Used in) Investing Activities	(36,200)	24,131	(125,775)
Cash Flows from Financing Activities:			
Proceeds from bank borrowings	49,000	328,000	258,200
Payments of bank borrowings	(48,000)	(324,900)	(153,500)
Net proceeds from issuances of common stock	—	—	302
Purchase of treasury shares	—	(4)	(150)
Payments of debt issuance costs	(502)	(6,482)	(571)
Net Cash Provided by (Used In) Financing Activities	498	(3,386)	104,281
Net increase (decrease) in Cash and Cash Equivalents	(6,292)	(20,721)	6,916
Cash and Cash Equivalents at Beginning of Period	8,739	29,460	406
Cash and Cash Equivalents at End of Period	$2,447	$8,739	$7,322

Supplemental Disclosures of Cash Flow Information:

Cash paid during period for interest, net of amounts capitalized	$8,021	$10,367	$62,012
Cash paid during period for income taxes	$—	$—	$450
Cash paid for reorganization items	$12,017	$15,643	$—
Changes in capital accounts payable and capital accruals	$(17,554)	$1,843	$(36,615)

See accompanying Notes to Condensed Consolidated Financial Statements.

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Notes to Condensed Consolidated Financial Statements (Unaudited)
Swift Energy Company and Subsidiaries

(1) General Information

The condensed consolidated financial statements included herein are unaudited and have been prepared by 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 note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. We believe that the disclosures presented are adequate to allow the information presented not to be misleading. The condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 as filed with the Securities and Exchange Commission on March 4, 2016 though, as described below, such prior financial statements may not be comparable to our interim financial statements due to the adoption of fresh start accounting. Our independent registered public accounting firm for the year ended December 31, 2015 expressed their audit opinion dated March 4, 2016 on such financial statements with a going concern uncertainty explanatory paragraph.

(1A) Emergence from Voluntary Reorganization under Chapter 11 Proceedings

On December 31, 2015, Swift Energy Company ("Swift Energy," the "Company" or "we") and eight of its U.S. subsidiaries (the "Chapter 11 Subsidiaries") filed voluntary petitions seeking relief under Chapter 11 of Title 11 of the U.S. Bankruptcy Code (the "Bankruptcy Code") in the U.S. Bankruptcy Court for the District of Delaware under the caption In re Swift Energy Company, et al (Case No. 15-12670). The Company and the Chapter 11 Subsidiaries received bankruptcy court confirmation of their joint plan of reorganization (the "Plan") on March 31, 2016, and subsequently emerged from bankruptcy on April 22, 2016 (the "Effective Date").

Effect of the Bankruptcy Proceedings. During the bankruptcy proceedings, the Company conducted normal business activities and was authorized to pay and has paid (subject to caps applicable to payments of certain pre-petition obligations) pre-petition employee wages and benefits, pre-petition amounts owed to certain lienholders and critical vendors, pre-petition amounts owed to pipeline owners that transport the Company's production, and funds belonging to third parties, including royalty holders and partners.

In addition, subject to certain specific exceptions under the Bankruptcy Code, the Chapter 11 filings automatically stayed most judicial or administrative actions against the Company and efforts by creditors to collect on or otherwise exercise rights or remedies with respect to pre-petition claims. As a result, we did not record interest expense on the Company’s senior notes for the period of January 1, 2016 through April 22, 2016 (as the predecessor). For that period, contractual interest on the senior notes totaled $21.6 million.

Plan of Reorganization. Pursuant to the Plan, the significant transactions that occurred upon emergence from bankruptcy were as follows:

- the approximately $906 million of indebtedness outstanding on account of the Company’s senior notes, $75.0 million in borrowings under the Company's DIP Credit Agreement (described below) and certain other unsecured claims were exchanged for 88.5% of the post-emergence Company’s common stock;
- the lenders under the DIP Credit Agreement (as defined and more fully described below) received an additional backstop fee consisting of 7.5% of the post-emergence Company’s common stock;
-

the Company’s pre-petition common stock was canceled and the current shareholders received 4% of the post-emergence Company’s common stock and warrants to purchase up to 30% of the reorganized Company's equity. See Note 1B of these condensed consolidated financial statements for more information;

- claims of other creditors were paid in full in cash, reinstated or otherwise treated in a manner acceptable to the creditors;
- the Company entered into a registration rights agreement to provide customary registration rights to certain holders of the Company’s post-emergence common stock who, together with their affiliates received upon emergence 5% or more of the outstanding common stock of the Company;
- the Company sold (effective April 15, 2016) a portion of its interest in its Central Louisiana fields known as Burr Ferry and South Bearhead Creek to Texegy LLC, for net proceeds of approximately $46.9 million including deposits received prior to the closing date; and

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the Company's previous credit facility (the "Prior First Lien Credit Facility") was terminated and a new senior secured credit facility (the "New Credit Facility") with an initial $320 million borrowing base was established. For more information refer to Note 5 of these condensed consolidated financial statements.

In accordance with the Plan, the post-emergence Company’s new board of directors was initially to be made up of seven directors consisting of the Chief Executive Officer, two directors appointed by Strategic Value Partners LLC ("SVP"), a former holder of the Company’s senior notes, two directors appointed by other former holders of the Company’s senior notes, one additional independent director and one independent new non-executive chairman of the Board. In addition, pursuant to the Plan, SVP and the other former holders of the Company’s senior notes were given certain continuing director nomination rights subject to minimum share ownership conditions.

DIP Credit Agreement. In connection with the pre-petition negotiations of the restructuring support agreement, certain holders of the Company’s senior notes agreed to provide the Company and the Chapter 11 Subsidiaries a debtor-in-possession credit facility (the “DIP Credit Agreement"). The DIP Credit Agreement provided for a multi-draw term loan of up to $75.0 million, which became available to the Company upon the satisfaction of certain milestones and contingencies. Upon emergence from bankruptcy, the Company had drawn down the entire $75.0 million available. Pursuant to the Plan, the borrowings under the DIP Credit Agreement, at the option of the lenders to the DIP Credit Agreement, converted into the post-emergence Company’s common stock, which was part of the 88.5% of the common stock distributed to the holders of the Company's senior notes and certain unsecured creditors. As such, the $75.0 million borrowed under the DIP Credit Agreement was not required to be repaid in cash and was terminated upon the Company’s exit from bankruptcy. For more information refer to Note 5 of these condensed consolidated financial statements.

Financial Statement Classification of Liabilities Subject to Compromise. Our financial statements included amounts classified as liabilities subject to compromise, a majority of which were equitized upon emergence from bankruptcy on April 22, 2016. See Note 1B of these condensed consolidated financial statements for more information.

(1B) Fresh Start Accounting

Upon the Company's emergence from Chapter 11 bankruptcy, the Company adopted fresh start accounting, pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 852, “Reorganizations”, and applied the provisions thereof to its financial statements. The Company qualified for fresh start accounting because (i) the holders of existing voting shares of the pre-emergence debtor-in-possession, referred to herein to as the "Predecessor" or "Predecessor Company," received less than 50% of the voting shares of the post-emergence successor entity, which we refer to herein as the "Successor" or "Successor Company" and (ii) the reorganization value of the Company's assets immediately prior to confirmation was less than the post-petition liabilities and allowed claims. The Company applied fresh start accounting as of April 22, 2016, when it emerged from bankruptcy protection. Adopting fresh start accounting results in a new reporting entity for financial reporting purposes with no beginning retained earnings or deficit. The cancellation of all existing shares outstanding on the Effective Date and issuance of new shares of the Successor Company caused a related change of control of the Company under ASC 852. Upon the application of fresh start accounting, Swift allocated the reorganization value to its individual assets based on their estimated fair values. Reorganization value represents the fair value of the Successor Company's assets before considering liabilities. As a result of the application of fresh start accounting, as well as the effects of the implementation of the Plan, the Consolidated Financial Statements on or after April 22, 2016, are not comparable with the Consolidated Financial Statements prior to that date. References to “Successor” or “Successor Company” relate to the financial position and results of operations of the reorganized Company subsequent to April 22, 2016. References to “Predecessor” or “Predecessor Company” refer to the financial position and results of operations of the Company prior to April 22, 2016.

Reorganization Value. Reorganization value represents the fair value of the Successor Company's total assets and is intended to approximate the amount a willing buyer would pay for the assets immediately after restructuring. Under fresh start accounting, we allocated the reorganization value to our individual assets based on their estimated fair values.

Our reorganization value is derived from an estimate of enterprise value. Enterprise value represents the estimated fair value of an entity's long term debt and shareholders' equity. In support of the Plan, the enterprise value of the Successor Company was estimated and approved by the bankruptcy court to be in the range of $460 million to $800 million. Based on the estimates and assumptions used in determining the enterprise value, as further discussed below, the Company estimated the enterprise value to be approximately $474 million. This valuation analysis was prepared using reserve information, development schedules, other financial information and financial projections and applying standard valuation techniques, including risked net asset value analysis and public comparable company analyses.

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Valuation of Oil and Gas Properties. The Company’s principal assets are its oil and gas properties, which the Company accounts for under the Full Cost Accounting method as described in Note 2. With the assistance of valuation experts, the Company determined the fair value of its oil and gas properties based on the discounted cash flows expected to be generated from these assets. The computations were based on market conditions and reserves in place as of the bankruptcy emergence date.

The Company’s Reserves Engineers developed full cycle production models for all of the Company’s developed wells and identified undeveloped drilling locations within the Company’s leased acreage. The undeveloped locations were categorized based on varying levels of risk using industry standards. The proved locations were limited to wells expected to be drilled in the Company’s five year plan. The locations were then segregated into geographic areas. Future cash flows before application of risk factors were estimated by using the New York Mercantile Exchange five year forward prices for West Texas Intermediate oil and Henry Hub natural gas with inflation adjustments applied to periods beyond five years. These prices were adjusted for typical differentials realized by the Company for location and product quality adjustments. Transportation cost estimates were based on agreements in place at the emergence date. Development and operating costs were based on the Company’s recent cost trends adjusted for inflation.

Risk factors were determined separately for each geographic area. Based on the geological characteristics of each area appropriate risk factors for each of the reserve categories were applied. The Company and its valuation experts considered production, geological and mechanical risk to determine the probability factor for each reserve category in each area.

The risk adjusted after tax cash flows were discounted at 12%. This discount factor was derived from a weighted average cost of capital computation which utilized a blended expected cost of debt and expected returns on equity for similar industry participants. The after tax cash flow computations included utilization of the Company’s unamortized tax basis in the properties as of the emergence date. Plugging and abandonment costs were included in the cash flow projections for undeveloped reserves but were excluded for developed reserves since the fair value of this liability was determined separately and included in the emergence date liabilities reported on the balance sheet.

From this analysis the Company concluded the fair value of its proved reserves was $509.4 million, and the value of its probable reserves was $45.5 million as of the effective date. The fair value of the possible reserves was determined to be de minimus and no value was therefore recognized. The value of probable reserves was classified as unevaluated costs. The Company also reviewed its undeveloped leasehold acreage and concluded that the fair value of its probable reserves appropriately captured the fair value of its undeveloped leasehold acreage. These amounts are reflected in the Fresh Start Adjustments item number 12 below.

The following table reconciles the enterprise value to the estimated fair value of the Successor Company's common stock as of the Effective Date (in thousands):

	April 22, 2016
Enterprise Value	$473,660
Plus: Cash and cash equivalents	8,739
Less: Fair value of debt	(253,000)
Less: Fair value of warrants	(14,967)
Fair value of Successor common stock	$214,432
Shares outstanding at April 22, 2016	10,000
Per share value	$21.44

Upon issuance of the New Credit Facility on April 22, 2016, the Company received net proceeds of approximately $253 million and incurred debt issuance costs of approximately $7.0 million.

In accordance with the Plan, the Company issued two series of warrants (each for up to 15% of the reorganized Company's equity) to the former holders of the Company’s common stock, one to expire on the close of business on April 22, 2019 (the “2019 Warrants”) and the other to expire on the close of business on April 22, 2020 (the “2020 Warrants” and, together with the 2019 Warrants, the “Warrants”). Following the Effective Date, there were 2019 Warrants outstanding to purchase up to an aggregate of 2,142,857 shares of Common Stock at an initial exercise price of $80.00 per share. Following the Effective Date, there were 2020 Warrants outstanding to purchase up to an aggregate of 2,142,857 shares of Common Stock at an initial exercise price of $86.18 per share. All unexercised Warrants shall expire, and the rights of the holders of such Warrants (the “Warrant Holders”) to purchase

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Common Stock shall terminate at the close of business on the first to occur of (i) their respective expiration dates or (ii) the date of completion of (A) any Fundamental Equity Change (as defined in the Warrant Agreement) or (B) an Asset Sale (as defined in the Warrant Agreement). The fair value of the 2019 and 2020 Warrants was $3.26 and $3.73 per warrant, respectively. A Black- Scholes pricing model with the following assumptions was used in determining the fair value: strike price of $80 and $86.18; expected volatility of 70% and 65%; expected dividend rate of 0.0%; risk free interest rate of 1.01% and 1.19%; and expiration date of 3 and 4 years, respectively. The fair value of these warrants was estimated using Level 2 inputs (for additional discussion of the Level 2 inputs, refer to Note 7 of these condensed consolidated financial statements).

The following table reconciles the enterprise value to the estimated reorganization value as of the Effective Date (in thousands):

	April 22, 2016
Enterprise Value	$473,660
Plus: Cash and cash equivalents	8,739
Plus: Other working capital liabilities	73,318
Plus: Other long-term liabilities	58,992
Reorganization value of Successor assets	$614,709

Reorganization value and enterprise value were estimated using numerous projections and assumptions that are inherently subject to significant uncertainties and resolution of contingencies that are beyond our control. Accordingly, the estimates set forth herein are not necessarily indicative of actual outcomes, and there can be no assurance that the estimates, projections or assumptions will be realized.

Condensed Consolidated Balance Sheet. The adjustments set forth in the following condensed consolidated balance sheet reflect the effect of the consummation of the transactions contemplated by the Plan (reflected in the column “Reorganization Adjustments”) as well as fair value adjustments as a result of the adoption of fresh start accounting (reflected in the column “Fresh Start Adjustments”). The explanatory notes highlight methods used to determine fair values or other amounts of the assets and liabilities as well as significant assumptions.

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The following table reflects the reorganization and application of ASC 852 on our condensed consolidated balance sheet as of April 22, 2016 (in thousands):

	Predecessor Company	Reorganization Adjustments		Fresh Start Adjustments		Successor Company
ASSETS						
Current Assets:						
Cash and cash equivalents	$ 57,599	$ (48,860)	(1)	$ —		$ 8,739
Accounts receivable	34,278	(597)	(2)	—		33,681
Other current assets	3,503	—		—		3,503
Total current assets	95,380	(49,457)		—		45,923
Property and equipment	6,007,326	—		(5,448,759)	(12)	558,567
Less - accumulated depreciation, depletion and amortization	(5,676,252)	—		5,676,252	(12)	—
Property and equipment, net	331,074	—		227,493		558,567
Other Long-term assets	4,629	6,388	(3)	(798)	(13)	10,219
Total Assets	$ 431,083	$ (43,069)		$ 226,695		$ 614,709

	Predecessor Company	Reorganization Adjustments		Fresh Start Adjustments		Successor Company
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities:						
Accounts payable and accrued liabilities	$ 64,324	$ (4,666)	(4)	$ (885)	(14)	$ 58,773
Accrued capital costs	5,410	—		—		5,410
Accrued interest	768	(104)	(5)	—		664
Undistributed oil and gas revenues	8,471	—		—		8,471
Current portion of debt	364,500	(364,500)	(6)	—		—
Total current liabilities	443,473	(369,270)		(885)		73,318
Long-term debt	—	253,000	(7)	—		253,000
Asset retirement obligation	51,800	—		6,101	(14)	57,901
Other long-term liabilities	2,124	—		(1,033)	(15)	1,091
Liabilities subject to compromise	911,381	(911,381)	(8)	—		—
Total Liabilities	1,408,778	(1,027,651)		4,183		385,310
Stockholders' Equity:						
Preferred stock		—		—		—
Common stock (Predecessor)	450	(450)	(9)	—		—
Common stock (Successor)	—	100	(10)	—		100
Additional paid-in capital (Predecessor)	777,475	(777,475)	(9)	—		—
Additional paid-in capital (Successor)	—	229,299	(10)	—		229,299
Treasury stock held at cost	(2,496)	2,496	(9)	—		—
Retained earnings (accumulated deficit)	(1,753,124)	1,530,612	(11)	222,512	(16)	—
Total Stockholders' Equity (Deficit)	(977,695)	984,582		222,512		229,399
Total Liabilities and Stockholders' Equity	$ 431,083	$ (43,069)		$ 226,695		$ 614,709

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Reorganization Adjustments

1. Reflects the net cash payments recorded as of the Effective Date from implementation of the Plan (in thousands):

Sources:	
Net proceeds from New Credit Facility	253,000
Total Sources	$253,000
Uses:	
Repayment of Prior First Lien Credit Facility	289,500
Debt issuance costs	6,482
Predecessor accounts payable paid upon emergence	5,878
Total Uses	$301,860
Net Uses	$(48,860)

2. Reflects the impairment of a short-term leasehold improvement build-out receivable for $0.6 million that will no longer be reimbursed by the building lessor as the Company's office lease contract was rejected as part of the bankruptcy.

3. Reflects the capitalization of debt issuance costs on the New Credit Facility for $7.0 million, of which $6.5 million was paid on emergence and $0.5 million included in accounts payable and accrued liabilities and paid in the subsequent month, as well as the impairment of a long-term leasehold improvement build-out receivable for $0.6 million relating to an office lease contract that was rejected in connection with the bankruptcy.

4. Reflects the settlement of predecessor accounts payable of $5.2 million partially offset by capitalized debt issuance costs of $0.5 million.

5. Reflects the settlement of accrued interest on the Company's DIP Credit Agreement which was equitized upon emergence.

6. On the Effective Date, the Company repaid in full all borrowings outstanding of $289.5 million under the Prior First Lien Credit Facility. In addition the Company equitized the outstanding DIP Credit Agreement borrowings of $75 million via the issuance of equity valued at $142.3 million.

7. Reflects the $253 million in new borrowings under the New Credit Facility.

8. Liabilities subject to compromise were settled as follows in accordance with the Plan (in thousands):

7.125% senior notes due 2017	$250,000
8.875% senior notes due 2020	225,000
7.875% senior notes due 2022	400,000
Accrued interest	30,043
Accounts payable and accrued liabilities	1,713
Other long-term liabilities	4,625
Liabilities subject to compromise of the Predecessor Company (LSTC)	911,381
Fair value of equity issued to former holders of the senior notes of the Predecessor	(47,443)
Gain on settlement of Liabilities subject to compromise	$863,938

9. Reflects the cancellation of the Predecessor Company equity to retained earnings.

10. Reflects the issuance of 10.0 million shares of common stock at a per share price of $21.44 and 4.3 million warrants to purchase up to 30% of the reorganized Company's equity valued at $15.0 million with an average per unit value of $3.49. Former holders of the senior notes and certain unsecured creditors were issued 8.85 million shares of common stock while the Backstop

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Lenders (as defined in the DIP Credit Agreement) were issued 0.75 million shares of common stock. Former shareholders received the warrants and 0.4 million shares of common stock.

11. Reflects the cumulative impact of the reorganization adjustments discussed above (in thousands):

Gain on settlement of Liabilities subject to compromise	$863,938
Fair value of equity issued in excess of DIP principal	(67,329)
Fair value of equity and warrants issued to Predecessor stockholders	(23,544)
Fair value of equity issued to DIP lenders for backstop fee	(16,082)
Other reorganization adjustments	(1,800)
Cancellation of Predecessor Company equity	775,429
Net impact to accumulated deficit	$1,530,612

Fresh Start Adjustments

12. The following table summarizes the fair value adjustment on our oil and gas properties and accumulated depletion, depreciation and amortization (in thousands):

	Predecessor Company	Fresh Start Adjustments	Successor Company
Oil and Gas Properties			
Proved properties	$5,951,016	$(5,441,655)	$509,361
Unproved properties	12,057	33,448	45,505
Total Oil and Gas Properties	5,963,073	(5,408,207)	554,866
Less - Accumulated depletion and impairments	(5,638,741)	5,638,741	—
Net Oil and Gas Properties	324,332	230,534	554,866
Furniture, Fixtures, and other equipment	44,252	(40,551)	3,701
Less - Accumulated depreciation	(37,510)	37,510	—
Net Furniture, Fixtures and other equipment	$6,742	$(3,041)	$3,701
Net Oil and Gas Properties, Furniture and fixtures and accumulated depreciation	$331,074	$227,493	$558,567

13. Reflects the adjustment of other non-current assets to fair value.

14. Reflects the current and long-term portion of the Company's asset retirement obligation computed in accordance with ASC 410-20, applying the appropriate discount rate to future costs as of the emergence date, which the Company has determined to be a reasonable fair value estimate.

15. Reflects the adjustment of other non-current liabilities to fair value.

16. Reflects the cumulative impact of fresh start adjustments as discussed above.

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Reorganization Items

Reorganization items represent liabilities settled, net of amounts incurred subsequent to the Chapter 11 filing as a direct result of the Plan and are classified as "(Gain) Loss on Reorganization items, net" in the Condensed Consolidated Statements of Operations. The following table summarizes reorganization items (in thousands):

	Successor Period from April 23, 2016 through September 30, 2016	Predecessor Period from January 1, 2016 through April 22, 2016
Gain on settlement of liabilities subject to compromise	$ —	$ (863,938)
Fair value of equity issued in excess of DIP principal	—	67,329
Fresh start adjustments	—	(222,512)
Reorganization legal and professional fees and expenses	1,595	25,573
Fair value of equity issued to DIP lenders for backstop fee	—	16,082
Other reorganization items	(126)	21,324
(Gain) Loss on Reorganization items, net	$ 1,469	$ (956,142)

(2) Summary of Significant Accounting Policies

Fresh Start Accounting. Upon emergence from bankruptcy the Company adopted Fresh Start Accounting, see Note 1B for further details.

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

Reclassifications. Certain reclassifications have been made to prior periods' reported amounts in the Consolidated Statement of Cash Flows in order to conform to the current period presentation. These reclassifications did not impact the Company's net loss, stockholders' equity or cash flows.

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

- the estimates of reorganization value, enterprise value and fair value of assets and liabilities upon emergence from bankruptcy and application of fresh start accounting,
- the estimated quantities of proved oil and natural gas reserves used to compute depletion of oil and natural gas properties, the related present value of estimated future net cash flows there-from, and the ceiling test impairment calculation,

- estimates related to the collectability of accounts receivable and the credit worthiness of our customers,
- estimates of the counterparty bank risk related to letters of credit that our customers may have issued on our behalf,
- estimates of future costs to develop and produce reserves,
- accruals related to oil and gas sales, capital expenditures and lease operating expenses,
- estimates in the calculation of share-based compensation expense,
- estimates of our ownership in properties prior to final division of interest determination,
- the estimated future cost and timing of asset retirement obligations,

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- estimates made in our income tax calculations,
- estimates of the Liabilities subject to compromise versus not subject to compromise,
- estimates in the calculation of the fair value of hedging assets and liabilities,
- estimates in the assessment of current litigation claims against the Company, and
- estimates in amounts due with respect to open state regulatory audits.

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 are expected to be recorded in the period during which the adjustments are known.

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

Property and Equipment. We follow the “full-cost” method of accounting for oil and natural gas property and equipment costs. Under this method of accounting, all productive and nonproductive costs incurred in the exploration, development, and acquisition of oil and natural gas reserves are capitalized. Such costs may be incurred both prior to and after the acquisition of a property and include lease acquisitions, geological and geophysical services, drilling, completion, and equipment. Internal costs incurred that are directly identified with exploration, development, and acquisition activities undertaken by us for our own account, and which are not related to production, general corporate overhead, or similar activities, are also capitalized. For the three months ended September 30, 2016 (successor) and the three months ended September 30, 2015 (predecessor), such internal costs capitalized totaled $2.0 million and $3.1 million, respectively. For the period of January 1, 2016 through April 22, 2016 (predecessor), period of April 23, 2016 through September 30, 2016 (successor) and the nine months ended September 30, 2015 (predecessor), such internal capitalized costs totaled $2.9 million, $3.5 million and $10.1 million, respectively. Interest costs are also capitalized to unproved oil and natural gas properties (refer to Note 5 of these condensed consolidated financial statements for further discussion on capitalized interest costs).

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

	Successor As of September 30, 2016	Predecessor As of December 31, 2015
Property and Equipment		
Proved oil and gas properties	$518,289	$5,972,666
Unproved oil and gas properties	47,310	18,839
Furniture, fixtures, and other equipment	3,726	44,252
Less – Accumulated depreciation, depletion, amortization & impairment	(160,117)	(5,577,854)
Property and Equipment, Net	$409,208	$457,903

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.

We compute the provision for depreciation, depletion, and amortization (“DD&A”) of oil and natural gas properties using the unit-of-production method. Under this method, we compute the provision by multiplying the total unamortized costs of oil and gas properties-including future development costs, gas processing facilities, and both capitalized asset retirement obligations and undiscounted abandonment costs of wells to be drilled, net of salvage values, but excluding costs of unproved properties-by an overall rate determined by dividing the physical units of oil and natural gas produced (which excludes natural gas consumed in operations) during the period by the total estimated units of proved oil and natural gas reserves (which excludes natural gas consumed in operations) at the beginning of the period. Future development costs are estimated on a property-by-property basis based on current economic conditions and are amortized to expense as our capitalized oil and gas property costs are amortized. The period over which we will amortize these properties is dependent on our production from these properties in future years.

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Furniture, fixtures, and other equipment are recorded at cost and are depreciated by the straight-line method at rates based on the estimated useful lives of the property, which range between two and 20 years. Repairs and maintenance are charged to expense as incurred.

Geological and geophysical (“G&G”) costs incurred on developed properties are recorded in “Proved properties” and therefore subject to amortization. G&G costs incurred that are directly associated with specific unproved properties are capitalized in “Unproved properties” and evaluated as part of the total capitalized costs associated with a prospect. The cost of unproved properties not being amortized is assessed quarterly, on a property-by-property basis, to determine whether such properties have been impaired. In determining whether such costs should be impaired, we evaluate current drilling results, lease expiration dates, current oil and gas industry conditions, 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) is limited to the sum of the estimated future net revenues from proved properties (excluding cash outflows from recognized asset retirement obligations, including future development and abandonment costs of wells to be drilled, using the preceding 12-months’ average price based on closing prices on the first day of each month, adjusted for price differentials, discounted at 10%, and the lower of cost or fair value of unproved properties) adjusted for related income tax effects (“Ceiling Test”).

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

Primarily due to pricing differences between the 12-month average oil and gas prices used in the Ceiling Test and the forward strip prices used to estimate the initial fair value of oil and gas properties on the Company’s April 22, 2016 (successor) balance sheet, we incurred a non-cash impairment write-down for the period of April 23, 2016 through September 30, 2016 (successor) of $133.5 million. As the full amount of this write-down was incurred at June 30, 2016, there was no such write-down for the three months ended September 30, 2016 (successor). Write-downs in prior periods were primarily the result of declining historical prices along with timing changes and reduction of projects and changes in our reserves product mix. For the three months ended September 30, 2015 (predecessor), we reported a non-cash impairment write-down of $321.5 million on our oil and natural gas properties. For the period of January 1, 2016 through April 22, 2016 (predecessor) and the nine months ended September 30, 2015 (predecessor), we reported non-cash impairment write-downs of $77.7 million, and $1.1 billion, respectively, on our oil and natural gas properties.

If future capital expenditures outpace future discounted net cash flows in our reserve calculations, if we have significant declines in our oil and natural gas reserves volumes (which also reduces our estimate of discounted future net cash flows from proved oil and natural gas reserves) or if oil or natural gas prices decline, it is possible that non-cash write-downs of our oil and natural gas properties will 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 due to decreases in oil or natural gas prices.

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. The Company uses the entitlement method of accounting in which we recognize our ownership interest in production as revenue. If our sales exceed our ownership share of production, the natural gas balancing payables are reported in “Accounts payable and accrued liabilities” on the accompanying condensed consolidated balance sheets. Natural gas balancing receivables are reported in “Other current assets” on the accompanying condensed consolidated balance sheets when our ownership share of production exceeds sales. As of September 30, 2016 and December 31, 2015, we did not have any material natural gas imbalances.

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 September 30, 2016 and December 31, 2015, we had an allowance for doubtful accounts of less than $0.1 million and approximately $0.1 million, respectively. The allowance for doubtful accounts has been deducted from the total “Accounts receivable” balance on the accompanying condensed consolidated balance sheets.

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At September 30, 2016, our “Accounts receivable” balance included $15.7 million for oil and gas sales, $2.6 million for joint interest owners, $2.1 million for severance tax credit receivables and $0.9 million for other receivables. At December 31, 2015, our “Accounts receivable” balance included $14.9 million for oil and gas sales, $4.9 million for joint interest owners, $1.2 million for severance tax credit receivables and $0.7 million for other receivables.

Supervision Fees. Consistent with industry practice, we charge a supervision fee to the wells we operate, including our wells, in which we own up to a 100% working interest. Supervision fees are recorded as a reduction to “General and administrative, net”, on the accompanying condensed consolidated statements of operations. Our supervision fees are allocated to each well based on general and administrative costs incurred for well maintenance and support. The amount of supervision fees charged for the three months ended September 30, 2016 (successor), the three months ended September 30, 2015 (predecessor), the period of January 1, 2016 through April 22, 2016 (predecessor), period of April 23, 2016 through September 30, 2016 (successor) and the nine months ended September 30, 2015 (predecessor) did not exceed our actual costs incurred. The total amount of supervision fees charged to the wells we operated were $1.7 million and $2.1 million for the three months ended September 30, 2016 (successor) and the three months ended September 30, 2015 (predecessor), respectively, and were $2.7 million, $3.0 million and $7.0 million for the period of January 1, 2016 through April 22, 2016 (predecessor), period of April 23, 2016 through September 30, 2016 (successor) and the nine months ended September 30, 2015 (predecessor), respectively.

Other Current Assets. Included in "Other current assets" on the accompanying condensed consolidated balance sheets are prepaid expenses totaling $2.5 million and $4.4 million at September 30, 2016 and December 31, 2015, respectively. These prepaid amounts cover well insurance, drilling contracts and various other prepaid expenses. Additionally inventories, which consist primarily of tubulars and other equipment and supplies, totaled $0.4 million at September 30, 2016 and $0.6 million at December 31, 2015.

Income Taxes. 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.

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 likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Our policy is to record interest and penalties relating to uncertain tax positions in income tax expense. At September 30, 2016, we did not have any accrued liability for uncertain tax positions and do not anticipate recognition of any significant liabilities for uncertain tax positions during the next 12 months.

Our U.S. Federal and state income tax returns for years prior to 2015 are subject to examination to the extent of our net operating loss (NOL) carryforwards. There are no material unresolved items related to periods previously audited by these taxing authorities.

The Company has evaluated the full impact of the reorganization on our carryover tax attributes and believes it will not incur an immediate cash income tax liability as a result of emergence from bankruptcy. The Company will be able to fully absorb cancellation of debt income with NOL carryforwards. The amount of remaining NOL carryforward available will be limited under IRC Sec. 382 due to the change in control. The Company’s amortizable tax basis exceeded the book carrying value of its assets at April 22 and September 30, 2016, leaving the Company in a net deferred tax asset position. Management has determined that it is not more likely than not that the Company will realize future cash benefits from this additional tax basis and remaining carryover items and accordingly has taken a full valuation allowance to offset its tax assets.

The Company expects to incur a net taxable loss in the current taxable period thus no current income taxes are anticipated to be paid and no benefit will be recorded due to the full valuation allowance of their tax assets.

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

	Successor As of September 30, 2016	Predecessor As of December 31, 2015
Trade accounts payable [1]	$ 5,056	$ —
Accrued operating expenses [1]	3,126	—
Accrued compensation costs [1]	3,513	—
Asset retirement obligation – current portion	2,922	7,165
Accrued non-income based taxes [1]	6,505	—
Accrued price risk liabilities [1]	5,373	—
Accrued corporate and legal fees [1]	4,472	—
Other payables [1][2]	2,427	498
Total accounts payable and accrued liabilities	$ 33,394	$ 7,663

(1) Classified as Liabilities subject to compromise as of December 31, 2015. Total Liabilities subject to compromise were $984.4 million as of December 31, 2015.
(2) Total balance at December 31, 2015 was $5.3 million, of which $4.8 million was classified as Liabilities subject to compromise with the remaining portion classified as "Other payables".

Cash and Cash Equivalents. We consider all highly liquid instruments with an initial maturity of three months or less to be cash equivalents. These amounts do not include cash balances that are contractually restricted.

Treasury Stock. Our treasury stock repurchases are reported at cost and are included “Treasury stock held, at cost" on the accompanying condensed consolidated balance sheets. All treasury stock was canceled upon emergence from bankruptcy and no new treasury stock existed at September 30, 2016.

Recognition of Severance Expense for Executive Retirements. On August 9, 2016, the Company announced that the Chief Executive Officer and Chief Financial Officer for the Company would be retiring. In the third quarter of 2016 we accrued $2.1 million for severance payments that will be paid out in accordance with their employment agreement. This amount was expensed in "General and administrative, net" in the condensed consolidated statement of operations for the three months ended September 30, 2016 (successor) and the period of April 23, 2016 through September 30, 2016 (successor), respectively. Additionally we accelerated expense related to the equity awards held by the retiring Chief Executive Officer and Chief Financial Officer. See Note 3 for more details.

New Accounting Pronouncements. In May 2014, the FASB issued ASU 2014-09, providing a comprehensive revenue recognition standard for contracts with customers that supersedes current revenue recognition guidance. The guidance requires entities to recognize revenue using the following five-step model: identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue as the entity satisfies each performance obligation. Adoption of this standard could result in retrospective application, either in the form of recasting all prior periods presented or a cumulative adjustment to equity in the period of adoption. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of previously issued ASU 2014-09 by one year for both public and private companies. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017. We are currently reviewing the new requirements to determine the impact of this guidance on our financial statements.

In August 2014, the FASB issued ASU 2014-15, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if "conditions or events raise substantial doubt about the entity's ability to continue as a going concern." The guidance applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted.

In February 2016, the FASB issued ASU 2016-02, which requires lessees to record most leases on the balance sheet. Under the new guidance, lease classification as either a finance lease or an operating lease will determine how lease-related revenue and expense are recognized. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently reviewing these new requirements to determine the impact of this guidance on our financial statements.

In March 2016, the FASB issued ASU 2016-09, which simplifies several aspects of the accounting for employee share based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. This standard was adopted by the Company as of the bankruptcy emergence date April 22, 2016. The adoption of this guidance did not result in any adjustments.

In August 2016, the FASB issued ASU 2016-15, which provides greater clarity to preparers on the treatment of eight specific items within an entity's statement of cash flows with the goal of reducing existing diversity on these items. The guidance is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the ASU in an interim period, adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. We are currently reviewing these new requirements to determine the impact of this guidance on our financial statements.

(3) Share-Based Compensation

Emergence from Voluntary Reorganization

Upon the Company's emergence from bankruptcy on April 22, 2016, as discussed in Note 1A, the Company's common stock was canceled and new common stock was issued. The Company's previous share-based compensation awards were either vested or canceled upon the Company's emergence from bankruptcy.

Share-Based Compensation Plans

Upon the Company's emergence from bankruptcy on April 22, 2016, as discussed in Note 1A, the Company's previous share-based compensation plans were canceled and the new Swift Energy Company 2016 Equity Incentive Plan was approved in accordance with the joint plan of reorganization. Under the previous share-based compensation plan the outstanding restricted stock awards and restricted stock unit awards for most employees vested under on an accelerated basis while awards issued to certain officers of the Company and the Board of Directors were canceled.

For awards granted after emergence from bankruptcy, the Company does not estimate the forfeiture rate during the initial calculation of compensation cost but rather has elected to account for forfeitures in compensation cost when they occur. For the predecessor periods the Company had estimated the forfeiture rate for share-based compensation during the initial calculation of compensation cost.

The Company computes a deferred tax benefit for restricted stock awards, unit awards and stock options expected to generate future tax deductions by applying its effective tax rate to the expense recorded. For restricted stock units the Company's actual tax deduction is based on the value of the units at the time of vesting. For the period of April 23, 2016 through September 30, 2016 (successor) no units vested. For the period of January 1, 2016 through April 22, 2016 (predecessor) the tax deduction realized was significantly less than the associated deferred tax asset, however the tax asset had been fully offset with a valuation allowance in prior periods so no incremental tax expense was realized. For the nine months ended September 30, 2015 (predecessor), we did recognize an income tax shortfall in earnings of \$1.4 million, primarily related to restricted stock awards that vested at a price lower than the grant date fair value.

Share-based compensation for the predecessor and successor periods are not comparable. The expense for awards issued to both employees and non-employees, which was recorded in “General and administrative, net” in the accompanying condensed consolidated statements of operations was $2.9 million and $1.1 million for the three months ended September 30, 2016 (successor) and the three months ended September 30, 2015 (predecessor). For the period of January 1, 2016 through April 22, 2016 (predecessor) and the period of April 23, 2016 through September 30, 2016 (successor) the expense was $0.9 million and $3.1 million, respectively, while during the nine months ended September 30, 2015 (predecessor) the expense was $3.1 million.

We have not capitalized any share-based compensation for the three months ended September 30, 2016 (successor) and the period of April 23, 2016 through September 30, 2016 (successor). We capitalized $0.4 million and $1.0 million of share-based compensation for three and nine months ended September 30, 2015 (predecessor), respectively, and capitalized $0.2 million of share-based compensation for the period of January 1, 2016 through April 22, 2016 (predecessor). We view stock option awards

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and restricted stock unit awards with graded vesting as single awards with an expected life equal to the average expected life of component awards, and we amortize the awards on a straight-line basis over the life of the awards.

Stock Option Awards

On June 8, 2016, 105,811 stock option awards were granted to various officers and directors with an exercise price of $23.25. The compensation cost related to these awards is based on the grant date fair value and is typically expensed over the vesting period (generally one to three years). We use the Black-Scholes-Merton option pricing model to estimate the fair value of stock option awards with the following assumptions for stock option awards issued during the period of April 23, 2016 through September 30, 2016 (successor):

	Stock Option Valuation Assumptions	
Expected Dividend	—	
Expected volatility	69.3	%
Risk-free interest rate	1.42	%
Expected life of stock option awards (in years)	4	
Weighted average grant-date fair value	$ 12.64	

To estimate expected volatility of our 2016 stock option grants we used the historical volatility of stock prices based on a group of our peer companies.

Restricted Stock Unit Awards

The 2016 equity incentive compensation plan allows for the issuance of restricted stock unit awards that generally may not be sold or otherwise transferred until certain restrictions have lapsed. The compensation cost related to these awards is based on the grant date fair value and is typically expensed over the requisite service period (generally one to three years).

On June 8, 2016, 254,905 restricted stock unit awards were granted to various officers and directors with a grant-date fair value of $23.25. These grants generally vest over a period of one to three years.

The following table represents restricted stock unit award activity for the period of April 23, 2016 through September 30, 2016 (successor):

	Shares	Grant Date Price
Restricted stock units outstanding, beginning of period (successor)	—	$—
Restricted stock units granted	254,905	$23.25
Restricted stock units canceled	—	$—
Restricted stock units vested	—	—
Restricted stock units outstanding, end of period (successor)	254,905	$23.25

In accordance with their employment agreements, the Chief Executive Officer and Chief Financial Officer will vest in all of their share-based compensation awards in conjunction with their retirements. As such, all expense for their stock option awards and restricted stock unit awards was accelerated and is included in the share-based compensation expense for the three months ended September 30, 2016 (successor). The total expense included in the period for such awards was $1.6 million for 76,058 restricted stock unit awards and $0.7 million for 60,847 stock option awards. No shares were canceled or vested during the three months ended September 30, 2016 (successor).

(4) Earnings Per Share

Upon the Company's emergence from bankruptcy on April 22, 2016, as discussed in Note 1A, the Company’s then outstanding common stock was canceled and new common stock and warrants were issued.

Basic earnings per share (“Basic EPS”) has been computed using the weighted average number of common shares outstanding during each period. Diluted earnings per share ("Diluted EPS") assumes, as of the beginning of the period, exercise

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of stock options and restricted stock grants using the treasury stock method. Diluted EPS also assumes conversion of performance-based restricted stock units to common shares based on the number of shares (if any) that would be issuable, according to predetermined performance and market goals, if the end of the reporting period was the end of the performance period. As we recognized a net loss for the period of April 23, 2016 through September 30, 2016 (successor) and the three and nine months ended September 30, 2015 (predecessor), the unvested share-based payments and stock options were not recognized in Diluted EPS calculations as they would be antidilutive. Certain of our stock options and restricted stock grants that would potentially dilute Basic EPS in the future were also antidilutive for the period of January 1, 2016 through April 22, 2016 (predecessor), 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 periods indicated below (in thousands, except per share amounts):

	Successor Three Months Ended September 30, 2016			Predecessor Three Months Ended September 30, 2015		
	Net Income (Loss)	Shares	Per Share Amount	Net Income (Loss)	Shares	Per Share Amount
Basic EPS:						
Net Income (Loss) and Share Amounts	$394	10,000	$ 0.04	$(354,588)	44,546	$(7.96)
Dilutive Securities:						