

SPINNAKER EXPLORATION CO  
Form 8-K  
August 01, 2003

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 8-K**

**CURRENT REPORT PURSUANT**  
**TO SECTION 13 OR 15(d) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported): **July 31, 2003**

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**SPINNAKER EXPLORATION COMPANY**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of Incorporation)

**001-16009**  
(Commission File Number)

**76-0560101**  
(I.R.S. Employer Identification No.)

**1200 Smith Street, Suite 800**

**Houston, Texas**  
(Address of Principal Executive Offices)

**77002**  
(Zip Code)

Registrant's telephone number, including area code: **(713) 759-1770**

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**Item 12. Results of Operations and Financial Condition.**

The following information is furnished pursuant to Item 12, Results of Operations and Financial Condition.

Contact:

Robert M. Snell, Vice President,

Chief Financial Officer and Secretary

(713) 759-1770

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Spinnaker Exploration Company Reports Production of 12.3 Bcfe and a 61% Increase in Second Quarter Earnings

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HOUSTON, July 31 /PRNewswire/ Spinnaker Exploration Company (NYSE: SKE) today reported second quarter 2003 earnings of \$10.0 million, or \$0.30 per diluted share, representing an increase of 61% over second quarter 2002 net income of \$6.2 million, or \$0.18 per diluted share.

Second quarter 2003 production increased 16% to 12.3 billion cubic feet of natural gas equivalent ( Bcfe ) compared to second quarter 2002 production of 10.6 Bcfe and decreased 10% compared to first quarter 2003 production of 13.7 Bcfe.

Second quarter 2003 revenues increased 50% to \$55.9 million compared to second quarter 2002 revenues of \$37.2 million. The increase in revenues was due to increased production of 1.7 Bcfe and higher average natural gas and oil prices in the second quarter of 2003 compared to the second quarter of 2002.

The average natural gas price increased approximately 50% and the average oil price increased approximately 11% in the second quarter of 2003 compared to the second quarter of 2002. Excluding the effects of hedging activities, second quarter 2003 prices averaged \$5.36 per thousand cubic feet of natural gas ( Mcf ) and \$28.89 per barrel of oil ( Bbl ) compared to second quarter 2002 average prices of \$3.57 per Mcf and \$26.09 per Bbl. The second quarter 2003 average natural gas price was negatively impacted by \$0.89 per Mcf related to hedging activities. Including the effects of hedging activities, second quarter 2003 realized prices averaged \$4.47 per Mcf and \$28.89 per Bbl compared to second quarter 2002 average realized prices of \$3.37 per Mcf and \$26.09 per Bbl.

Net income increased \$13.5 million to \$25.3 million, or \$0.75 per diluted share, in the first six months of 2003, representing an increase of 115%, compared to net income of \$11.8 million, or \$0.38 per diluted share, in the first six months of 2002.

Revenues increased \$57.8 million to \$127.6 million in the first six months of 2003 compared to \$69.8 million in the first six months of 2002, representing an increase of 83%. The increase in revenues was due to increased production of 5.6 Bcfe and higher average natural gas and oil prices in the first six months of 2003 compared to the same period of 2002.



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The average natural gas price increased approximately 102% and the average oil price increased approximately 30% in the first six months of 2003 compared to the first six months of 2002. Excluding the effects of hedging activities, prices in the first six months of 2003 averaged \$6.07 per Mcf and \$31.62 per Bbl compared to average prices in the first six months of 2002 of \$3.01 per Mcf and \$24.38 per Bbl. The average natural gas price in the first six months of 2003 was negatively impacted by \$1.24 per Mcf related to hedging activities. Including the effects of hedging activities, realized prices in the first six months of 2003 averaged \$4.83 per Mcf and \$31.62 per Bbl compared to average realized prices of \$3.36 per Mcf and \$24.38 per Bbl in the same period of 2002.

Lease operating expenses were \$0.42 per thousand cubic feet equivalent ( Mcfe ) in the second quarter of 2003 compared to \$0.35 per Mcfe in the second quarter of 2002 and \$0.40 per Mcfe in the first quarter of 2003.

The depreciation, depletion and amortization ( DD&A ) rate was \$2.55 per Mcfe in the second quarter of 2003 compared to \$2.00 per Mcfe in the second quarter of 2002 and \$2.40 per Mcfe in the first quarter of 2003.

Net cash provided by operating activities before changes in operating assets and liabilities is presented because of its acceptance as an indicator of the ability of an oil and gas exploration and production company to internally fund exploration and development activities. This measure should not be considered as an alternative to net cash provided by operating activities as defined by generally accepted accounting principles. A reconciliation of net cash provided by operating activities before changes in operating assets and liabilities to net cash provided by operating activities is shown below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net cash provided by operating activities	\$ 80,618	\$ 9,833	\$ 130,140	\$ 41,830
Changes in operating assets and liabilities	(33,068)	21,520	(19,582)	16,385
Net cash provided by operating activities before changes in operating assets and liabilities	\$ 47,550	\$ 31,353	\$ 110,558	\$ 58,215

Effective January 1, 2003, Spinnaker adopted Statement of Financial Accounting Standards ( SFAS ) No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires entities to record a liability for asset retirement obligations at fair value in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. As of January 1, 2003, the Company recorded an increase to property of \$21.4 million and an asset retirement obligation of \$26.0 million. The cumulative effect of change in accounting principle was \$3.5 million, net of taxes of \$2.0 million.

Second quarter 2003 additions to property and equipment of \$96.2 million included \$4.9 million related to asset retirement costs. Capital expenditures were \$84.7 million in the second quarter of 2003.

Income tax and cash tax rates in the second quarter of 2003 were 36% and 1%, respectively.

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To learn more about Spinnaker, the Company's web site may be accessed at [www.spinnakerexploration.com](http://www.spinnakerexploration.com).

Spinnaker Exploration Company is an independent energy company engaged in the exploration, development and production of natural gas and oil in the U.S. Gulf of Mexico.

Certain statements in this press release are forward-looking and are based upon Spinnaker's current belief as to the outcome and timing of future events that are subject to numerous uncertainties. Important factors that could cause actual results to differ materially from those in the forward-looking statements herein include the timing and extent of changes in commodity prices for natural gas and oil, operating risks and other risk factors as described in Spinnaker's Annual Report on Form 10-K for the year ended December 31, 2002 and its other filings with the Securities and Exchange Commission. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove incorrect, Spinnaker's actual results and plans could differ materially from those expressed in the forward-looking statements. The forward-looking statements in this press release are made only as of the date hereof, and Spinnaker undertakes no obligation to update such forward-looking statements.

## SPINNAKER EXPLORATION COMPANY

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
REVENUES	\$ 55,931	\$ 37,164	\$ 127,602	\$ 69,764
EXPENSES:				
Lease operating expenses	5,208	3,734	10,701	7,143
Depreciation, depletion and amortization natural gas and oil properties	31,242	21,231	64,077	38,608
Depreciation and amortization other	322	210	633	383
Accretion expense	569		1,064	
Gain on settlement of asset retirement obligations	(171)		(171)	
General and administrative	3,001	2,733	6,040	5,411
Total expenses	40,171	27,908	82,344	51,545
INCOME FROM OPERATIONS	15,760	9,256	45,258	18,219
OTHER INCOME (EXPENSE):				
Interest income	62	620	127	664
Interest expense, net	(153)	(155)	(302)	(449)
Total other income (expense)	(91)	465	(175)	215
INCOME BEFORE INCOME TAXES	15,669	9,721	45,083	18,434
Income tax expense	5,641	3,499	16,230	6,636
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	10,028	6,222	28,853	11,798
Cumulative effect of change in accounting principle			(3,527)	
NET INCOME	\$ 10,028	\$ 6,222	\$ 25,326	\$ 11,798
BASIC INCOME PER COMMON SHARE:				
Income before cumulative effect of change in accounting principle	\$ 0.30	\$ 0.19	\$ 0.87	\$ 0.39
Cumulative effect of change in accounting principle			(0.11)	
NET INCOME PER COMMON SHARE	\$ 0.30	\$ 0.19	\$ 0.76	\$ 0.39
DILUTED INCOME PER COMMON SHARE:				
Income before cumulative effect of change in accounting principle	\$ 0.30	\$ 0.18	\$ 0.85	\$ 0.38
Cumulative effect of change in accounting principle			(0.10)	
NET INCOME PER COMMON SHARE	\$ 0.30	\$ 0.18	\$ 0.75	\$ 0.38
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				

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Basic	<u>33,207</u>	<u>33,030</u>	<u>33,199</u>	<u>30,200</u>
Diluted	<u>33,859</u>	<u>34,162</u>	<u>33,776</u>	<u>31,330</u>



## SPINNAKER EXPLORATION COMPANY

## SUMMARY STATISTICS

(In thousands, except per share/unit amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended March 31, 2003
	2003	2002	2003	2002	
<b>Production:</b>					
Natural gas (MMcf)	10,206	9,096	21,791	18,441	11,585
Oil and condensate (MBbls)	343	250	695	323	352
Total (MMcfe)	12,264	10,592	25,963	20,377	13,699
<b>Average Daily Production:</b>					
Natural gas (MMcf)	112	100	120	102	129
Oil and condensate (MBbls)	3.8	2.7	3.8	1.8	4.0
Total (MMcfe)	135	116	143	113	152
<b>Average Sales Price Per Unit:</b>					
Natural gas revenues from production (per Mcf)	\$ 5.36	\$ 3.57	\$ 6.07	\$ 3.01	\$ 6.69
Effects of hedging activities (per Mcf)	(0.89)	(0.20)	(1.24)	0.35	(1.53)
Average price (per Mcf)	\$ 4.47	\$ 3.37	\$ 4.83	\$ 3.36	\$ 5.16
Oil and condensate revenues from production (per Bbl)	\$ 28.89	\$ 26.09	\$ 31.62	\$ 24.38	\$ 34.28
Effects of hedging activities (per Bbl)					
Average price (per Bbl)	\$ 28.89	\$ 26.09	\$ 31.62	\$ 24.38	\$ 34.28
Total revenues from production (per Mcfe)	\$ 5.27	\$ 3.68	\$ 5.94	\$ 3.11	\$ 6.54
Effects of hedging activities (per Mcfe)	(0.75)	(0.17)	(1.04)	0.32	(1.30)
Total average price (per Mcfe)	\$ 4.52	\$ 3.51	\$ 4.90	\$ 3.43	\$ 5.24
<b>Revenues:</b>					