

SPINNAKER EXPLORATION CO  
Form 8-K  
October 30, 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): **October 30, 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)

**1200 Smith Street, Suite 800**

**76-0560101**

(I.R.S. Employer Identification No.)

**77002**

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Houston, Texas

(Zip Code)

(Address of Principal Executive Offices)

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

Spinnaker Exploration Company Reports Third Quarter Production of 11.5 Bcfe and Earnings of \$4.8 million

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HOUSTON, October 30 /PRNewswire/ Spinnaker Exploration Company (NYSE: SKE) today reported third quarter 2003 earnings of \$4.8 million, or \$0.14 per diluted share. Third quarter 2003 production was 11.5 billion cubic feet of natural gas equivalent ( Bcfe ).

Net income in the third quarter of 2003 was \$4.8 million, or \$0.14 per diluted share, compared to third quarter 2002 net income of \$7.1 million, or \$0.21 per diluted share. Third quarter 2003 production was 11.5 Bcfe compared to third quarter 2002 production of 14.8 Bcfe and second quarter 2003 production of 12.3 Bcfe.

Revenues in the third quarter of 2003 were \$50.1 million compared to revenues of \$51.6 million in the third quarter of 2002. The decrease in revenues was due to decreased production of approximately 3.2 Bcfe, partially offset by higher average natural gas and oil prices in the third quarter of 2003 compared to the third quarter of 2002.

The average natural gas price increased approximately 50% and the average oil price increased approximately 14% in the third quarter of 2003 compared to the third quarter of 2002. Excluding the effects of hedging activities, third quarter 2003 prices averaged \$4.87 per thousand cubic feet of natural gas ( Mcf ) and \$29.50 per barrel of oil ( Bbl ) compared to third quarter 2002 average prices of \$3.25 per Mcf and \$25.97 per Bbl. The third quarter 2003 average natural gas price was negatively impacted by \$0.68 per Mcf related to hedging activities. Including the effects of hedging activities, third quarter 2003 realized prices averaged \$4.19 per Mcf and \$29.50 per Bbl compared to third quarter 2002 average realized prices of \$3.35 per Mcf and \$25.97 per Bbl.

Net income increased \$11.2 million to \$30.1 million, or \$0.89 per diluted share, in the first nine months of 2003 compared to net income of \$18.9 million, or \$0.59 per diluted share, in the first nine months of 2002, representing an increase of 59%. Production in the first nine months of 2003 increased 2.3 Bcfe to 37.5 Bcfe compared to production of 35.2 Bcfe in the first nine months of 2002, an increase of 7%.

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Revenues increased \$56.4 million to \$177.7 million in the first nine months of 2003 compared to \$121.3 million in the first nine months of 2002, representing an increase of 47%. The increase in revenues was due to higher average natural gas and oil prices in the first nine months of 2003 and increased production of 2.3 Bcfe compared to the same period of 2002.

The average natural gas price increased approximately 84% and the average oil price increased approximately 23% in the first nine months of 2003 compared to the first nine months of 2002. Excluding the effects of hedging activities, prices in the first nine months of 2003 averaged \$5.71 per Mcf and \$30.91 per Bbl compared to average prices in the first nine months of 2002 of \$3.11 per Mcf and \$25.21

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per Bbl. The average natural gas price in the first nine months of 2003 was negatively impacted by \$1.07 per Mcf related to hedging activities. Including the effects of hedging activities, realized prices in the first nine months of 2003 averaged \$4.64 per Mcf and \$30.91 per Bbl compared to average realized prices of \$3.36 per Mcf and \$25.21 per Bbl in the same period of 2002.

Lease operating expenses ( LOE ) were \$0.63 per thousand cubic feet equivalent ( Mcfe ) in the third quarter of 2003 compared to \$0.35 per Mcfe in the third quarter of 2002 and \$0.42 per Mcfe in the second quarter of 2003. The increase in the third quarter 2003 LOE rate was primarily due to a planned pipeline workover on Green Canyon 177 (Sangria) of \$2.7 million, or \$0.23 per Mcfe.

The depreciation, depletion and amortization ( DD&A ) rate was \$2.63 per Mcfe in the third quarter of 2003 compared to \$2.16 per Mcfe in the third quarter of 2002 and \$2.55 per Mcfe in the second quarter of 2003. The increase in the DD&A rate from the second quarter of 2003 was primarily due to costs associated with unsuccessful wells in the third quarter.

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		Nine Months	
	September 30,		Ended September 30,	
	2003	2002	2003	2002
Net cash provided by operating activities	\$ 36,367	\$ 46,628	\$ 166,507	\$ 88,458
Changes in operating assets and liabilities	2,479	(3,167)	(17,103)	13,218
<b>Net cash provided by operating activities before changes in operating assets and liabilities</b>	<b>\$ 38,846</b>	<b>\$ 43,461</b>	<b>\$ 149,404</b>	<b>\$ 101,676</b>

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.

Third quarter 2003 additions to property and equipment were \$58.9 million. Capital expenditures were \$62.5 million in the third quarter of 2003.

Income tax and cash tax rates in the third quarter of 2003 were 36% and 0%, respectively.

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

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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 September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
REVENUES	\$ 50,138	\$ 51,558	\$ 177,740	\$ 121,322
EXPENSES:				
Lease operating expenses	7,322	5,237	18,023	12,380
Depreciation, depletion and amortization natural gas and oil properties	30,399	31,929	94,476	70,537
Depreciation and amortization other	333	246	966	629
Accretion expense	529		1,593	
Gain on settlement of asset retirement obligations	(90)		(261)	
General and administrative	3,925	2,976	9,965	8,387
Charges related to Enron bankruptcy		128		128
Total expenses	42,418	40,516	124,762	92,061
INCOME FROM OPERATIONS	7,720	11,042	52,978	29,261
OTHER INCOME (EXPENSE):				
Interest income	49	272	176	936
Interest expense, net	(234)	(148)	(536)	(597)
Total other income (expense)	(185)	124	(360)	339
INCOME BEFORE INCOME TAXES	7,535	11,166	52,618	29,600
Income tax expense	2,713	4,020	18,943	10,656
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	4,822	7,146	33,675	18,944
Cumulative effect of change in accounting principle			(3,527)	
NET INCOME	\$ 4,822	\$ 7,146	\$ 30,148	\$ 18,944
BASIC INCOME PER COMMON SHARE:				
Income before cumulative effect of change in accounting principle	\$ 0.15	\$ 0.22	\$ 1.02	\$ 0.61
Cumulative effect of change in accounting principle			(0.11)	
NET INCOME PER COMMON SHARE	\$ 0.15	\$ 0.22	\$ 0.91	\$ 0.61
DILUTED INCOME PER COMMON SHARE:				
Income before cumulative effect of change in accounting principle	\$ 0.14	\$ 0.21	\$ 0.99	\$ 0.59
Cumulative effect of change in accounting principle			(0.10)	
NET INCOME PER COMMON SHARE	\$ 0.14	\$ 0.21	\$ 0.89	\$ 0.59



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<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:</b>				
Basic	33,226	33,160	33,208	31,198
Diluted	33,865	34,038	33,806	32,118

## SPINNAKER EXPLORATION COMPANY

## SUMMARY STATISTICS

(In thousands, except per share/unit amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended		Three Months
	September 30,		September 30,		Ended June 30,
	2003	2002	2003	2002	2003
<b>Production:</b>					
Natural gas (MMcf)	9,438	12,690	31,229	31,131	10,206
Oil and condensate (MBbls)	351	349	1,046	672	343
Total (MMcfe)	11,543	14,783	37,506	35,160	12,264
<b>Average Daily Production:</b>					
Natural gas (MMcf)	103	138	114	114	112
Oil and condensate (MBbls)	3.8	3.8	3.8	2.5	3.8
Total (MMcfe)	125	161	137	129	135
<b>Average Sales Price Per Unit:</b>					
Natural gas revenues from production (per Mcf)	\$ 4.87	\$ 3.25	\$ 5.71	\$ 3.11	\$ 5.36
Effects of hedging activities (per Mcf)	(0.68)	0.10	(1.07)	0.25	(0.89)
Average price (per Mcf)	\$ 4.19	\$ 3.35	\$ 4.64	\$ 3.36	\$ 4.47
Oil and condensate revenues from production (per Bbl)	\$ 29.50	\$ 25.97	\$ 30.91	\$ 25.21	\$ 28.89
Effects of hedging activities (per Bbl)					
Average price (per Bbl)	\$ 29.50	\$ 25.97	\$ 30.91	\$ 25.21	\$ 28.89
Total revenues from production (per Mcfe)	\$ 4.88	\$ 3.41	\$ 5.61	\$ 3.23	\$ 5.27
Effects of hedging activities (per Mcfe)	(0.56)	0.08	(0.89)	0.22	(0.75)