

SPINNAKER EXPLORATION CO  
Form 8-K  
February 17, 2004

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

Washington, D.C. 20549

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**FORM 8-K**

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**CURRENT REPORT**

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

Date of report (Date of earliest event reported): February 17, 2004

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**SPINNAKER EXPLORATION COMPANY**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**

(State or Other Jurisdiction of Incorporation)

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

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

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**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

Spinnaker Exploration Company Reports Fourth Quarter Production of 11.5 Bcfe and Earnings of \$6.5 million

HOUSTON, Feb. 17 /PRNewswire FirstCall/ Spinnaker Exploration Company (NYSE: SKE) today reported fourth quarter 2003 earnings of \$6.5 million, or \$0.19 per diluted share, compared to fourth quarter 2002 earnings of \$12.6 million, or \$0.37 per diluted share. Fourth quarter 2003 production was 11.5 billion cubic feet of natural gas equivalent ( Bcfe ) compared to third quarter 2003 production of 11.5 Bcfe and fourth quarter 2002 production of 16.3 Bcfe. Cash from operations in the fourth quarter of 2003 was \$41.7 million compared to \$58.8 million in the fourth quarter of 2002. (Cash from operations is a non-GAAP financial measure that is defined and reconciled in the table below.)

Full-year 2003 net income increased \$5.0 million to \$36.6 million, or \$1.08 per diluted share, compared to net income of \$31.6 million, or \$0.97 per diluted share, in 2002. Production in 2003 was 49.0 Bcfe compared to 2002 production of 51.4 Bcfe. Cash from operations in 2003 totaled \$191.1 million compared to \$160.4 million reported in 2002, representing an increase of 19%.

Revenues in the fourth quarter of 2003 were \$49.1 million compared to revenues of \$67.0 million in the fourth quarter of 2002. The decrease in revenues was primarily due to lower production, partially offset by higher average natural gas and oil prices compared to the fourth quarter of 2002. Revenues increased \$38.5 million to \$226.9 million in 2003 compared to \$188.3 million in 2002. The increase in revenues was primarily due to higher average natural gas and oil prices for all of 2003.

The average natural gas price in the fourth quarter of 2003 increased approximately 9% and the average oil price increased approximately 4% compared to the fourth quarter of 2002. Excluding the effects of hedging activities, fourth quarter 2003 prices averaged \$4.63 per thousand cubic feet of natural gas ( Mcf ) and \$29.57 per barrel of oil ( Bbl ) compared to fourth quarter 2002 average prices of \$4.23 per Mcf and \$28.56 per Bbl. The fourth quarter 2003 average natural gas price was negatively impacted by \$0.47 per Mcf related to hedging activities. Including the effects of hedging activities, the fourth quarter 2003 average realized natural gas price was \$4.16 per Mcf compared to \$4.02 per Mcf in the fourth quarter 2002.

The average natural gas price in 2003 increased approximately 58% and the average oil price increased approximately 16% compared to 2002. Excluding the effects of hedging activities, 2003 prices averaged \$5.46 per Mcf and \$30.56 per Bbl compared to 2002 average prices of \$3.46 per Mcf and \$26.39 per Bbl. The average natural gas price in 2003 was negatively impacted by \$0.93 per Mcf related to hedging activities. Including the effects of hedging activities, the average realized natural gas price in 2003 was \$4.53 per Mcf compared to \$3.56 per Mcf in 2002.

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Lease operating expenses ( LOE ) were \$0.39 per thousand cubic feet equivalent ( Mcfe ) in the fourth quarter of 2003 compared to \$0.36 per Mcfe in the fourth quarter of 2002 and \$0.63 per Mcfe in the third quarter of 2003. The third quarter 2003 LOE rate was primarily due to a previously announced planned pipeline workover on Green Canyon 177 (Sangria) of approximately \$2.4 million, or \$0.21 per Mcfe.

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The depreciation, depletion and amortization ( DD&A ) rate was \$2.68 per Mcfe in the fourth quarter of 2003 compared to \$2.37 per Mcfe in the fourth quarter of 2002 and \$2.63 per Mcfe in the third quarter of 2003. The DD&A rate was \$2.56 in 2003 compared to \$2.12 in 2002.

Cash from operations 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 cash from operations to net cash provided by operating activities is shown below:

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2003	2002	2003	2002
Net cash provided by operating activities	\$ 31,603	\$ 65,501	\$ 198,110	\$ 153,959
Changes in operating assets and liabilities	10,062	(6,742)	(7,041)	6,476
Cash from operations	<u>\$ 41,665</u>	<u>\$ 58,759</u>	<u>\$ 191,069</u>	<u>\$ 160,435</u>

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 and equipment 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 after taxes of \$2.0 million.

Fourth quarter 2003 additions to property and equipment, excluding asset retirement costs of \$2.3 million, were \$74.4 million. Additions to property and equipment in 2003, excluding asset retirement costs of \$30.0 million, were \$279.5 million compared to \$349.7 million in 2002. Included in this amount is \$77.7 million spent on Mississippi Canyon 496 (Zia) and Green Canyon 338/339/382 (Front Runner), two deepwater developments that have been under development over the last few years. Zia commenced production in July 2003. First production at Front Runner is expected during the second half of 2004.

Income tax and cash tax (actual cash paid for taxes) rates in the fourth quarter of 2003 were 36% and 2%, respectively, and 36% and less than 1% in 2002, respectively.

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

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 December 31,		Year Ended December 31,	
	2003	2002	2003	2002
REVENUES	\$ 49,110	\$ 67,004	\$ 226,850	\$ 188,326
EXPENSES:				
Lease operating expenses	4,466	5,832	22,489	18,212
Depreciation, depletion and amortization natural gas and oil properties	30,855	38,461	125,331	108,998
Depreciation and amortization other	344	285	1,310	914
Accretion expense	658		2,251	
(Gain)/Loss on settlement of asset retirement obligations	(203)		(464)	
General and administrative	2,808	2,597	12,773	10,984
Charges related to Enron bankruptcy				128
Total expenses	38,928	47,175	163,690	139,236
INCOME FROM OPERATIONS	10,182	19,829	63,160	49,090
OTHER INCOME (EXPENSE):				
Interest income	25	78	201	1,014
Interest expense, net	(248)	(165)	(784)	(762)
Other	140		140	
Total other income (expense)	(83)	(87)	(443)	252
INCOME BEFORE INCOME TAXES	10,099	19,742	62,717	49,342
Income tax expense	3,635	7,107	22,578	17,763
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	6,464	12,635	40,139	31,579
Cumulative effect of change in accounting principle			(3,527)	
NET INCOME	\$ 6,464	\$ 12,635	\$ 36,612	\$ 31,579
BASIC INCOME PER COMMON SHARE:				
Income before cumulative effect of change in accounting principle	\$ 0.19	\$ 0.38	\$ 1.21	\$ 1.00
Cumulative effect of change in accounting principle			(0.11)	
NET INCOME PER COMMON SHARE	\$ 0.19	\$ 0.38	\$ 1.10	\$ 1.00
DILUTED INCOME PER COMMON SHARE:				
Income before cumulative effect of change in accounting principle	\$ 0.19	\$ 0.37	\$ 1.18	\$ 0.97
Cumulative effect of change in accounting principle			(0.10)	

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NET INCOME PER COMMON SHARE	\$ 0.19	\$ 0.37	\$ 1.08	\$ 0.97
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	33,310	33,171	33,234	31,695
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Diluted	34,151	33,839	33,880	32,653
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>



## SPINNAKER EXPLORATION COMPANY

## SUMMARY STATISTICS

(In thousands, except per share/unit amounts)

(Unaudited)

	Three Months Ended		Year Ended		Three Months Ended September 30,
	December 31,		December 31,		
	2003	2002	2003	2002	
<b>Production:</b>					
Natural gas (MMcf)	9,298	14,049	40,527	45,180	9,438
Oil and condensate (MBbls)	368	368	1,414	1,040	351
Total (MMcfe)	11,504	16,259	49,010	51,419	11,543
<b>Average Daily Production:</b>					
Natural gas (MMcf)	101	153	111	124	103
Oil and condensate (MBbls)	4.0	4.0	3.9	2.8	3.8
Total (MMcfe)	125	177	134	141	125
<b>Average Sales Price Per Unit:</b>					
Natural gas revenues from production (per Mcf)	\$ 4.63	\$ 4.23	\$ 5.46	\$ 3.46	\$ 4.87
Effects of hedging activities (per Mcf)	(0.47)	(0.21)	(0.93)	0.10	(0.68)
Average realized price (per Mcf)	\$ 4.16	\$ 4.02	\$ 4.53	\$ 3.56	\$ 4.19
Oil and condensate revenues from production (per Bbl)	\$ 29.57	\$ 28.56	\$ 30.56	\$ 26.39	\$ 29.50
Effects of hedging activities (per Bbl)					
Average realized price (per Bbl)	\$ 29.57	\$ 28.56	\$ 30.56	\$ 26.39	\$ 29.50
Total revenues from production (per Mcfe)	\$ 4.68	\$ 4.30	\$ 5.39	\$ 3.57	\$ 4.88
Effects of hedging activities (per Mcfe)	(0.38)	(0.18)	(0.77)	0.09	(0.56)
Total average realized price (per Mcfe)	\$ 4.30	\$ 4.12	\$ 4.62	\$ 3.66	\$ 4.32
<b>Revenues:</b>					
Natural gas	\$ 43,018	\$ 59,460	\$ 221,179	\$ 156,214	\$ 45,967
Oil and condensate	10,869	10,521	43,208	27,448	10,355
Net hedging income (loss)	(4,375)	(3,046)	(37,717)	4,664	(6,432)
Other	(402)	69	180		