

SPINNAKER EXPLORATION CO
Form 8-K
April 30, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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): April 29, 2004

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

Houston, Texas

76-0560101

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

77002

(Zip Code)

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(Address of Principal Executive Offices)

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

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 First Quarter Earnings of \$13.7 million
and Production of 10.3 Bcfe

HOUSTON, Apr. 29 /PRNewswire FirstCall/ Spinnaker Exploration Company (NYSE: SKE) today reported first quarter 2004 earnings of \$13.7 million, or \$0.40 per diluted share, compared to first quarter 2003 earnings of \$15.3 million, or \$0.45 per diluted share. First quarter 2004 production was 10.3 billion cubic feet of natural gas equivalent (Bcfe) compared to first quarter 2003 production of 13.7 Bcfe and fourth quarter 2003 production of 11.5 Bcfe. Cash from operations in the first quarter of 2004 was \$51.8 million compared to \$63.0 million in the first quarter of 2003. (Cash from operations is a non-GAAP financial measure that is defined and reconciled in the table below.)

Revenues in the first quarter of 2004 were \$59.8 million compared to \$71.7 million in the first quarter of 2003. The decrease in revenues was primarily due to lower production, partially offset by higher realized natural gas and oil prices (after the effects of hedging activities) in the first quarter of 2004 compared to the first quarter of 2003.

While the actual natural gas price was lower in the first quarter of 2004 compared to the first quarter of 2003, the realized natural gas price in the first quarter of 2004 was higher than the first quarter 2003 realized price after the effects of hedging activities in both quarters. Excluding the effects of hedging activities, first quarter 2004 prices were \$5.57 per thousand cubic feet of natural gas (Mcf) and \$34.79 per barrel of oil (Bbl) compared to first quarter 2003 prices of \$6.69 per Mcf and \$34.28 per Bbl. The first quarter 2004 natural gas price was positively impacted by \$0.21 per Mcf related to hedging activities. Including the effects of hedging activities, the first quarter 2004 realized natural gas price was \$5.78 per Mcf compared to \$5.16 per Mcf in the first quarter 2003.

Lease operating expenses (LOE) were \$0.46 per thousand cubic feet equivalent (Mcfe) in the first quarter of 2004 compared to \$0.40 per Mcfe in the first quarter of 2003 and \$0.39 per Mcfe in the fourth quarter of 2003.

The depreciation, depletion and amortization (DD&A) rate was \$2.82 per Mcfe in the first quarter of 2004 compared to \$2.40 per Mcfe in the first quarter of 2003 and \$2.68 per Mcfe in the fourth quarter of 2003. The 5% increase in the DD&A rate from the fourth quarter of 2003 to the first quarter of 2004 was primarily due to costs associated with unsuccessful drilling

operations and higher finding costs. Dry hole costs, including associated leasehold costs, were approximately \$22.7 million.

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	
	March 31,	
	2004	2003
Net cash provided by operating activities	\$ 47,467	\$ 49,522
Changes in operating assets and liabilities	4,337	13,486
Cash from operations	\$ 51,804	\$ 63,008

First quarter 2004 additions to property and equipment of \$74.8 million included exploration and development costs of approximately \$29.5 million and \$44.4 million, respectively.

Income tax and cash tax (actual cash paid for taxes) rates in the first quarter of 2004 were 36% and 0%, respectively, and 36% and 0% in the first quarter of 2003, respectively.

Spinnaker Exploration Company is an independent energy company engaged in the exploration, development and production of oil and gas in the U.S. Gulf of Mexico. To learn more about Spinnaker, the Company's web site may be accessed at 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, 2003 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	
	March 31,	
	2004	2003
REVENUES	\$ 59,791	\$ 71,671
EXPENSES:		
Lease operating expenses	4,713	5,493
Depreciation, depletion and amortization oil and gas properties	29,001	32,835
Depreciation and amortization other	346	311
Accretion expense	716	495
Gain on settlement of asset retirement obligations	(126)	
General and administrative	3,498	3,039
Total expenses	38,148	42,173
INCOME FROM OPERATIONS	21,643	29,498
OTHER INCOME (EXPENSE):		
Interest income	32	65
Interest expense, net	(211)	(149)
Total other income (expense)	(179)	(84)
INCOME BEFORE INCOME TAXES	21,464	29,414
Income tax expense	7,727	10,589
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	13,737	18,825
Cumulative effect of change in accounting principle		(3,527)
NET INCOME	\$ 13,737	\$ 15,298
BASIC INCOME PER COMMON SHARE:		
Income before cumulative effect of change in accounting principle	\$ 0.41	\$ 0.57
Cumulative effect of change in accounting principle		(0.11)
NET INCOME PER COMMON SHARE	\$ 0.41	\$ 0.46
DILUTED INCOME PER COMMON SHARE:		
Income before cumulative effect of change in accounting principle	\$ 0.40	\$ 0.56
Cumulative effect of change in accounting principle		(0.11)
NET INCOME PER COMMON SHARE	\$ 0.40	\$ 0.45

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WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:

Basic	33,546	33,191
Diluted	34,636	33,684

SPINNAKER EXPLORATION COMPANY

SUMMARY STATISTICS

(In thousands, except per share/unit amounts)

(Unaudited)

	Three Months Ended March 31,		Three Months Ended December 31,
	2004	2003	2003
Production:			
Natural gas (MMcf)	8,303	11,585	9,298
Oil and condensate (MBbls)	332	352	368
Total (MMcfe)	10,295	13,699	11,504
Average daily production:			
Natural gas (MMcf)	91	129	101
Oil and condensate (MBbls)	3.6	4.0	4.0
Total (MMcfe)	113	152	125
Average sales price per unit:			
Natural gas revenues from production (per Mcf)	\$ 5.57	\$ 6.69	\$ 4.63
Effects of hedging activities (per Mcf)	0.21	(1.53)	(0.47)
Average realized price (per Mcf)	\$ 5.78	\$ 5.16	\$ 4.16
Oil and condensate revenues from production (per Bbl)	\$ 34.79	\$ 34.28	\$ 29.57
Effects of hedging activities (per Bbl)			
Average realized price (per Bbl)	\$ 34.79	\$ 34.28	\$ 29.57
Total revenues from production (per Mcfe)	\$ 5.61	\$ 6.54	\$ 4.68
Effects of hedging activities (per Mcfe)	0.17	(1.30)	(0.38)
Total average realized price (per Mcfe)	\$ 5.78	\$ 5.24	\$ 4.30
Revenues:			
Natural gas	\$ 46,222	\$ 77,488	\$ 43,018
Oil and condensate	11,547	12,075	10,869
Net hedging income (loss)	1,739	(17,743)	(4,375)
Other	283	(149)	(402)
Total	\$ 59,791	\$ 71,671	\$ 49,110
Expenses (per Mcfe):			
Lease operating expenses	\$ 0.46	\$ 0.40	\$ 0.39
Depreciation, depletion and amortization natural gas and oil properties	\$ 2.82	\$ 2.40	\$ 2.68

SPINNAKER EXPLORATION COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	As of March 31, 2004	As of December 31, 2003
	<u> </u>	<u> </u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,532	\$ 15,315
Accounts receivable	35,585	30,067
Hedging assets		203
Other	8,411	4,193
	<u> </u>	<u> </u>
Total current assets	51,528	49,778
Property and equipment	1,418,806	1,343,966
Less Accumulated depreciation, depletion and amortization	(434,236)	(404,298)
	<u> </u>	<u> </u>
Total property and equipment	984,570	939,668
Other assets	993	1,136
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,037,091</u>	<u>\$ 990,582</u>
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 25,620	\$ 18,723
Accrued liabilities and other	47,146	60,874
Hedging liabilities	8,130	2,903
Asset retirement obligations, current portion	2,392	446
	<u> </u>	<u> </u>
Total current liabilities	83,288	82,946
Long-term debt	75,000	50,000
Asset retirement obligations	31,582	32,548
Deferred income taxes	86,666	81,027
Equity	760,555	744,061
	<u> </u>	<u> </u>
Total liabilities and equity	<u>\$ 1,037,091</u>	<u>\$ 990,582</u>

SPINNAKER EXPLORATION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	March 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 13,737	\$ 15,298
Effects of non-cash operating activities	38,067	47,710
Change in operating assets and liabilities	(4,337)	(13,486)
Net cash provided by operating activities	47,467	49,522
Cash flows from investing activities:		
Oil and gas properties	(83,476)	(59,872)
Proceeds from the sale of oil and gas property and equipment		1,148
Purchases of other property and equipment	(776)	(401)
Net cash used in investing activities	(84,252)	(59,125)
Cash flows from financing activities:		
Proceeds from borrowings	25,000	
Debt issue costs	(39)	
Proceeds from exercise of stock options	4,041	218
Net cash provided by financing activities	29,002	218
Net decrease in cash and cash equivalents	(7,783)	(9,385)
Cash and cash equivalents, beginning of year	15,315	32,543
Cash and cash equivalents, end of period	\$ 7,532	\$ 23,158

Contact:

Robert M. Snell, Vice President,

Chief Financial Officer and Secretary

(713) 759-1770

Spinnaker Exploration Company Provides First Quarter Operating Results,
Details New Discoveries in the Eastern Gulf and High Island

HOUSTON, April 29/ PRNewswire First Call/ Spinnaker Exploration Company (NYSE: SKE) today summarized its operating activities since February 17, 2004. The Company also detailed several new discoveries, including a success at the San Jacinto prospect and an extension of the Spiderman/Amazon Field, both in the Eastern Gulf; and a new discovery at High Island 201. The Company also provided production estimates for the second quarter and full year 2004.

PRODUCTION

Production for the first quarter 2004 totaled 10.3 billion cubic feet of gas equivalent (Bcfge), including approximately 8.3 Bcf and 332,000 barrels of oil (BO), or approximately 113 million cubic feet of gas equivalent per day (MMcfged). Current production is approximately 160 MMcfged.

Per unit lease operating expense (LOE) inclusive of severance tax and workover expense was \$0.46 per thousand cubic feet of gas equivalent (Mcf) produced during the quarter. Production delays from several new fields caused by weather increased the LOE rate approximately \$0.03/Mcf.

EXPLORATION

Since February 17, 2004, Spinnaker has participated in four successful wells in five attempts. A summary of successful wells follows.