SPINNAKER EXPLORATION CO
Form DEF 14A
April 11, 2002

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]
Check the appropriate box:
[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Under Rule 14a-12

SPINNAKER EXPLORATION COMPANY

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
[X] No fee required.
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

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2) Form Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

[Spinnaker Exploration Company Logo]

SPINNAKER EXPLORATION COMPANY

Houston, Texas

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Tuesday, May 7, 2002

To the Stockholders:

The 2002 Annual Meeting of Stockholders (the "Annual Meeting") of Spinnaker Exploration Company (the "Company" or "Spinnaker") will be held on Tuesday, May 7, 2002, at 9:00 a.m., local time, at the DoubleTree Hotel at Allen Center, 400 Dallas Street at Bagby, Houston, Texas, for the following purposes:

(1) To elect seven directors to serve until the 2003 Annual Meeting of Stockholders;

(2) To ratify the selection of KPMG LLP as independent public accountants of the Company for the fiscal year ending December 31, 2002; and

(3) To transact such other business as may properly come before such meeting or any adjournment(s) thereof.

The close of business on March 15, 2002 has been fixed as the record date for the determination of stockholders entitled to receive notice of and to vote at the Annual Meeting or any adjournment(s) thereof.

You are cordially invited to attend the Annual Meeting. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, WE ASK THAT YOU SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE. A SELF-ADDRESSED, POSTAGE-PAID ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE.

By Order of the Board of Directors

/s/ ROBERT M. SNELL
Robert M. Snell
Secretary

April 10, 2002

[Spinnaker Exploration Company Logo]

SPINNAKER EXPLORATION COMPANY

1200 Smith Street, Suite 800
Houston, Texas 77002
(713) 759-1770

PROXY STATEMENT

SOLICITATION AND REVOCABILITY OF PROXIES

The enclosed proxy is solicited by and on behalf of the Board of Directors of the Company (the "Board of Directors") for use at the Annual Meeting to be held on Tuesday, May 7, 2002, at 9:00 a.m., local time, at the DoubleTree Hotel at Allen Center, 400 Dallas Street at Bagby, Houston, Texas or at any adjournment(s) thereof. The solicitation of proxies by the Board of Directors will be conducted primarily by mail. In addition, officers, directors and employees of the Company may solicit proxies personally or by telephone, telegram or other forms of wire or facsimile communication. The Company will reimburse brokers, custodians, nominees and fiduciaries for reasonable expenses incurred by them in forwarding proxy material to beneficial owners of common stock of the Company ("Common Stock"). The costs of the solicitation will be borne by the Company. This proxy statement and the form of proxy were first mailed to stockholders of the Company on or about April 11, 2002.

The enclosed proxy, even though executed and returned, may be revoked at any time prior to the voting of the proxy (a) by execution and submission of a revised proxy, (b) by written notice to the Secretary of the Company or (c) by voting in person at the Annual Meeting. In the absence of such revocation, shares represented by the proxies will be voted at the Annual Meeting.

At the close of business on March 15, 2002, the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting, there were 27,385,316 outstanding shares of Common Stock. Each stockholder is entitled to one vote for each share of Common Stock. The Common Stock is the only class of outstanding securities of the Company entitled to notice of and to vote at the Annual Meeting. In order to transact business at the Annual Meeting, a quorum consisting of a majority of all outstanding shares entitled to vote must be present or represented by proxy. Abstentions and proxies returned by brokerage firms for which no voting instructions have been received from their principals will be counted for the purpose of determining whether a quorum is present.

The Company's annual report to stockholders for the year ended December 31, 2001, including financial statements, is being mailed with the enclosed proxy to all stockholders entitled to vote at the Annual Meeting. The annual report does not constitute a part of the proxy soliciting material.

ELECTION OF DIRECTORS
(Proposal One)

Seven directors are to be elected at the Annual Meeting. The nominees for election as directors are Roger L. Jarvis, Sheldon R. Erikson, Jeffrey A.

Harris, Michael E. McMahon, Howard H. Newman, Michael G. Morris and Michael E. Wiley. If elected, each director will serve until the Company's 2003 Annual Meeting of Stockholders and until his successor shall have been elected and qualified. Each of the nominees for director

currently serves as a director of the Company. All of the directors are required to stand for election at the Annual Meeting because directors hold annual terms. The affirmative vote of the holders of a majority of the Common Stock present or represented by proxy and entitled to vote at the Annual Meeting is required to elect a director. Accordingly, abstentions and "broker non-votes" would have the same effect as a vote against a director. A broker non-vote occurs if a broker or other nominee does not have discretionary authority and has not received instructions with respect to a particular item. Stockholders may not cumulate their votes in the election of directors.

Unless otherwise instructed or unless authority to vote is withheld, the enclosed proxy will be voted FOR the election of the nominees listed below. Although the Board of Directors does not contemplate that any of the nominees will be unable to serve, if such a situation arises prior to the Annual Meeting, the persons named in the enclosed proxy will vote for the election of such other person(s) as may be nominated by the Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE ELECTION OF THE ABOVE NOMINEES.

The following table sets forth information as to each nominee regarding their name, age as of March 15, 2002, principal occupation, other directorships in certain companies held by them and the length of their continuous service as a director of the Company.

Nominees	Principal Occupation and Directorships	Director Since	Age
Roger L. Jarvis.........	Chairman of the Board, President and Chief Executive Officer of the Company; Director, National-Oilwell, Inc.	1996	48
Jeffrey A. Harris.......	Senior Managing Director, Warburg Pincus LLC; Partner, Warburg Pincus & Co.; Director, ECsoft Group plc, Industri-Matematik International Corp. and Knoll, Inc.	1996	46
Howard H. Newman........	Vice Chairman, Warburg Pincus LLC; Partner, Warburg Pincus & Co.; Director, ADVO, Inc., Cox Insurance Holdings, Plc, EEX Corporation, Encore Acquisition Company and Newfield Exploration Company	1996	54
Michael E. McMahon......	Partner, RockPort Partners LLC	1999	54
Sheldon R. Erikson......	Chairman of the Board, President and Chief Executive Officer, Cooper Cameron Corporation; Director, Layne Christensen Co., NCI Building Systems, Inc., Petroleum Equipment Suppliers Association and American Petroleum Institute	2000	60
Michael G. Morris.......	Chairman of the Board, President and Chief Executive Officer, Northeast Utilities; Director, Institute of	2001	55

	Nuclear Power Operations, Nuclear Energy Institute, Edison Electric Institute, Association of Edison Illuminating Companies, American Gas Association, Nuclear Electric Insurance Limited, Connecticut Business & Industry Association and Webster Financial Corporation		
Michael E. Wiley........	Chairman of the Board, President and Chief Executive Officer, Baker Hughes Incorporated; Director, American Petroleum Institute	2001	51

Each of the nominees has been engaged in the principal occupation set forth opposite his name for the past five years except as follows:

Mr. McMahon was a Managing Director of Chase Securities, Inc. from July 1997 to June 1998. From October 1994 until July 1997, Mr. McMahon was a Managing Director of Lehman Brothers.

Mr. Morris was President and Chief Executive Officer of Consumers Energy Company, a subsidiary of CMS Energy Corporation, from 1994 to 1997.

Mr. Wiley was President and Chief Operating Officer of Atlantic Richfield Company (ARCO) from 1998 through May 2000. Prior to 1998, Mr. Wiley served as Chairman, President and Chief Executive Officer of Vastar Resources, Inc.

Directors' Meetings and Committees of the Board of Directors

The Board of Directors held five meetings during 2001 and executed two unanimous consents in lieu of meetings. During 2001, each of the directors, except Mr. Erikson, attended at least 75 percent of the aggregate of (i) the total number of meetings of the Board of Directors held during the period that such director served as a director and (ii) the total number of meetings held by each committee of the Board of Directors on which such director served during the period that such director so served. The Board of Directors has the following standing committees:

Audit Committee. The Audit Committee, which consists of Messrs. McMahon, Morris and Wiley, met six times during 2001. Mr. McMahon serves as Chairman of the Audit Committee. All current members of the Audit Committee are independent as defined by the listing standards of the New York Stock Exchange. The Audit Committee is responsible for:

- overseeing the quality of quarterly and annual financial reporting;
- selecting, evaluating and, where appropriate, replacing the independent public accountants and ensuring their independence;
- consulting with the independent public accountants regarding the plan of audit, the report on the audit, the scope of their work and the quality of their performance;
- reviewing significant developments in accounting rules, issues involving judgment and affecting quality, proposed changes in methods of accounting or consolidated financial statements and adequacy of internal accounting controls;
- reviewing the selection, application and disclosure of critical accounting policies and having proactive discussions with management and

the independent public accountants about these critical accounting policies;

- overseeing and improving the process through which the Company identifies and controls business and financial reporting risks;
- reviewing internal control systems intended to ensure the reliability of financial reporting and compliance with applicable laws and regulations; and
- reviewing the establishment and maintenance of an environment that promotes ethical behavior and compliance with policies and procedures.

The Board of Directors adopted the Audit Committee Charter in 2000. The Audit Committee has performed its annual review and assessment of the Audit Committee Charter. A copy of the Audit Committee Charter is attached hereto as Appendix A.

Compensation Committee. The Compensation Committee, which consists of Messrs. Harris, Erikson and Wiley, met twice during 2001. Mr. Harris is the Chairman of the Compensation Committee. The Compensation Committee is responsible for:

- administering and granting awards under all equity plans;
- reviewing the compensation of the Company's Chief Executive Officer and recommendations of the Chief Executive Officer as to appropriate compensation for the other executive officers and key personnel;

- examining periodically the Company's general compensation structure; and
- supervising the Company's welfare and pension plans and compensation plans.

Risk Management Committee. The Risk Management Committee, which consists of Messrs. Jarvis, Harris, McMahon and Morris, met twice during 2001. Mr. Jarvis is the Chairman of the Risk Management Committee. The Risk Management Committee is responsible for monitoring the hedging program and adherence to the hedging policy.

The Board of Directors currently has no nominating committee or committee performing a similar function.

Compensation of Directors

Prior to 2001, non-employee directors unaffiliated with Warburg, Pincus Ventures, L.P. ("Warburg") were granted options pursuant to the Company's equity plans to purchase 16,000 shares of Common Stock at fair market value, as defined, upon appointment to the Board of Directors, with 20 percent vesting on the date of grant and 20 percent vesting on each anniversary of the grant date. These directors were also awarded a variable number of options to purchase Common Stock at fair market value, as defined, annually on the date of previously-held annual meetings of stockholders, with 100 percent vesting on the date of grant.

In May 2001, the Board of Directors adopted and approved the Director Compensation Plan, which includes the following provisions:

- Upon appointment or election to the Board of Directors, each outside

director of the Company shall receive options to purchase 20,000 shares of Common Stock under the terms of one of the Company's equity incentive plans then in effect with an exercise price equal to the fair market value of the Common Stock on the date of the grant. Each non-employee director of the Company unaffiliated with Warburg who received options to purchase shares of Common Stock prior to the adoption of the Director Compensation Plan received options to purchase an additional 4,000 shares of Common Stock. Such additional options to purchase 4,000 shares of Common Stock vested 20 percent on the date of the grant and will vest 20 percent on each anniversary of the date of the grant.

- Each non-employee director of the Company unaffiliated with Warburg may select to receive either (i) annual director fees of $24,000 payable in quarterly installments of $6,000 or (ii) an option to purchase shares of Common Stock, granted on or about the date of each annual meeting of stockholders of the Company, equivalent to a payment of $24,000 using the Black-Scholes option pricing model as of the date of the grant. Such options will be awarded under the terms of one of the Company's equity plans then in effect with an exercise price equal to the fair market value of the Common Stock on the date of the grant. Such options to purchase shares of Common Stock shall vest 100 percent on the date of the grant.

- Warburg has requested one allocation of each option grant under the Director Compensation Plan to be divided equally between Messrs. Harris and Newman for the ultimate benefit of Warburg.

- Each non-employee director of the Company unaffiliated with Warburg will receive a meeting fee of $500.00. In addition, each non-employee director who also serves as a Committee Chairman will receive an additional $500.00 for each Committee meeting held outside a regular meeting of the Board of Directors. Warburg has requested that one allocation of meeting fees be paid to Mr. Harris for the ultimate benefit of Warburg. No compensation will be paid for executing a unanimous consent of directors.

In 2001, the Compensation Committee granted options to directors under the Director Compensation Plan to purchase 74,000 shares of Common Stock as follows:

- 4,000, 10,000, 4,000, 20,000, 10,000 and 20,000 options to purchase shares of Common Stock to Messrs. Erikson, Harris, McMahon, Morris, Newman and Wiley, respectively, with 20 percent vesting on the date of grant and 20 percent vesting on each anniversary of the grant date;

- 1,200, 600, 1,200, 1,200, 600 and 1,200 options to purchase shares of Common Stock, to Messrs. Erikson, Harris, McMahon, Morris, Newman and Wiley, respectively, with 100 percent vesting on the date of grant.

Non-employee directors are also reimbursed for out-of-pocket expenses incurred to attend board and committee meetings.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information, unless otherwise indicated, as of March 15, 2002, regarding beneficial ownership of Common Stock by (i) each person known by the Company to own beneficially five percent or more of its outstanding Common Stock, (ii) the Company's Chief Executive Officer and each of the Company's other four most highly compensated executive

officers, (iii) each director and (iv) all executive officers and directors as a group.

Name of Beneficial Owner	Beneficial Ownership(4)	
	Shares	Percent
Warburg, Pincus Ventures, L.P. (1) (2)	6,800,585	24.8%
FMR Corp. (3)	1,614,540	5.9
Roger L. Jarvis	1,057,093	3.7
William D. Hubbard	245,297	*
Robert M. Snell	104,223	*
L. Scott Broussard	96,034	*
Kelly M. Barnes	166,387	*
Sheldon R. Erikson	14,500	*
Jeffrey A. Harris (2)	6,805,185	24.8
Michael E. McMahon	33,430	*
Michael G. Morris	9,200	*
Howard H. Newman (2)	6,805,185	24.8
Michael E. Wiley	9,200	*
Executive officers and directors as a group (consisting of 13 persons) (2)	8,642,293	29.7

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* Represents beneficial ownership of less than one percent.

(1) The stockholder is Warburg, Pincus Ventures, L.P. Warburg Pincus & Co. is the sole general partner of Warburg. Warburg is managed by Warburg Pincus LLC. Lionel I. Pincus is the managing partner of Warburg Pincus & Co. and the managing member of Warburg Pincus LLC and may be deemed to control both entities. The address of the Warburg Pincus entities is 466 Lexington Avenue, New York, New York 10017.

(2) Messrs. Harris and Newman, directors of Spinnaker, are partners of Warburg Pincus & Co. Mr. Newman is Vice Chairman and Mr. Harris is Senior Managing Director of Warburg Pincus LLC. Of the total shares indicated as owned by Messrs. Harris and Newman, 6,800,585 shares are included because of their affiliation with the Warburg Pincus entities. Messrs. Harris and Newman disclaim beneficial ownership of all shares owned by the Warburg Pincus entities.

(3) The stockholder is FMR Corp. The address of FMR Corp. is 82 Devonshire Street, Boston, Massachusetts 02109. According to Schedule 13G, dated February 14, 2002, filed with the Securities and Exchange Commission jointly by FMR Corp., Edward C. Johnson 3d and Abigail P. Johnson, Mr. Johnson is Chairman and Ms. Johnson is a director of FMR Corp. and may be deemed to be members of a controlling group with respect to FMR Corp. The Schedule 13G indicates that at December 31, 2001, (i) Fidelity Management & Research Company ("Fidelity"), a wholly-owned subsidiary of FMR Corp., was the beneficial owner of 1,196,340 shares of Common Stock in its capacity as investment adviser to various registered investment companies (the "Fidelity Funds") (the power to vote such shares resides solely with the boards of trustees of the Fidelity Funds, while the power to dispose of such shares resides with Mr. Johnson, FMR Corp. (through its control of Fidelity) and the Fidelity Funds); (ii) Fidelity Management Trust Company ("Fidelity

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Management"), a bank that is wholly-owned by FMR Corp., was the beneficial owner of 318,200 shares of Common Stock (the power to vote and dispose of

318,200 of such shares resides with Mr. Johnson and FMR Corp. (through its control of Fidelity Management)); and (iii) Fidelity International Limited, an investment adviser to various investment companies of which Mr. Johnson is chairman but which is managed independently from FMR Corp., was the beneficial owner of 100,000 shares of Common Stock. FMR Corp. and Fidelity International Limited each disclaim beneficial ownership of Common Stock beneficially owned by the other.

(4) Pursuant to the rules and regulations promulgated under the Securities Exchange Act of 1934, shares are deemed to be "beneficially owned" by a person if he directly or indirectly has or shares the power to vote or dispose of such shares, whether or not he has any pecuniary interest in such shares, or if he has the right to acquire the power to vote or dispose of such shares within 60 days, including any right to acquire such power through the exercise of any option, warrant or right. The shares beneficially owned by Messrs. Jarvis, Hubbard, Barnes, Broussard, Snell, Erikson, Harris, McMahon, Morris, Newman and Wiley include 958,017, 222,176, 155,756, 94,079, 104,000, 14,500, 4,600, 15,100, 9,200, 4,600 and 9,200 shares, respectively, that may be acquired by such persons within 60 days through the exercise of stock options. The shares owned by the executive officers and directors as a group include 1,683,899 shares that may be acquired by such persons within 60 days through the exercise of stock options.

Section 16 Requirements

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers, directors and persons who own more than 10 percent of the Common Stock to file reports of ownership and changes in ownership concerning the Common Stock with the Securities and Exchange Commission and to furnish the Company with copies of all Section 16(a) forms they file. Based upon the Company's review of the Section 16(a) filings that have been received by the Company, the Company believes that all filings required to be made under Section 16(a) during 2001 were timely made.

MANAGEMENT

The following table sets forth certain information with respect to the executive officers of the Company as of March 15, 2002. The Company's executive officers serve at the discretion of the Board of Directors.

Name	Age	Position
Roger L. Jarvis.........	48	Chairman of the Board, President and Chief Executive Officer
Robert M. Snell.........	46	Vice President, Chief Financial Officer and Secretary
William D. Hubbard......	58	Vice President--Exploration
L. Scott Broussard......	44	Vice President--Drilling and Production
Kelly M. Barnes.........	48	Vice President--Land
Jimmy W. Bennett........	55	Vice President--Systems Technology and Processing
Jeffrey C. Zaruba.......	37	Vice President, Treasurer and Assistant Secretary

Roger L. Jarvis has served as President, Chief Executive Officer and Director of Spinnaker since 1996 and as Chairman of the Board of Spinnaker since 1998. From 1986 to 1994, Mr. Jarvis served in various capacities with King Ranch Inc. and its subsidiary, King Ranch Oil and Gas, Inc., including Chief Executive Officer, President and Director of King Ranch Inc. and Chief Executive Officer and President of King Ranch Oil and Gas, Inc., where he expanded its activities in the Gulf of Mexico. Mr. Jarvis is a director of National-Oilwell, Inc.

Robert M. Snell has served as Vice President, Chief Financial Officer and Secretary of Spinnaker since December 2000. From 1983 to 2000, Mr. Snell served in various capacities with Bank of America and its predecessors, most recently as a Managing Director of Banc of America Securities LLC, focused on the energy sector.

William D. Hubbard has served as Vice President--Exploration of Spinnaker since 1996. From 1992 to 1996, Mr. Hubbard served as Senior Vice President--Exploration of Global Natural Resources Corporation and its affiliated corporations, where he was responsible for both onshore and offshore exploration.

L. Scott Broussard has served as Vice President--Drilling and Production of Spinnaker since August 1999 after joining the Company as Operations Manager in 1998. From 1994 to 1998, Mr. Broussard served as Vice President and co-owner of HTK Consultants, Inc., an engineering consulting firm.

Kelly M. Barnes has served as Vice President--Land of Spinnaker since 1997. From 1992 to 1997, Mr. Barnes served as Vice President--Land and Assistant Corporate Secretary of Global Natural Resources Corporation and its affiliated corporations.

Jimmy W. Bennett has served as Vice President--Systems Technology and Processing of Spinnaker since May 2000. From 1997 to 2000, Mr. Bennett served as Spinnaker's Systems Manager. From 1991 to 1997, Mr. Bennett served as Systems Manager for King Ranch Oil and Gas, Inc.

Jeffrey C. Zaruba has served as Vice President, Treasurer and Assistant Secretary of Spinnaker since May 2001 after joining the Company as Treasurer in August 1999. From 1992 to 1999, Mr. Zaruba served as Assistant Controller and held various financial and tax reporting positions with Cliffs Drilling Company, which merged with R&B Falcon Corporation in 1998.

Employment Agreements

Mr. Jarvis entered into an employment agreement with Spinnaker effective December 20, 1996. The agreement provides that Mr. Jarvis will receive a minimum annual base salary equal to $250,000 or such amount as the Board of Directors may, in its sole discretion, determine from time to time. Under the agreement, Mr. Jarvis also may receive bonuses, at the discretion of the Board of Directors, and will be allowed to participate in all benefit plans offered by Spinnaker to similarly situated employees. Either the Board of Directors or Mr. Jarvis can terminate the employment agreement at any time. The initial term of the employment agreement ended on December 31, 2000. Under the terms of the agreement, it automatically became a year-to-year employment agreement. As a result, if his employment is not terminated before December 15, 2002, or on each year thereafter, the term of the agreement will automatically be extended for one additional year. In addition, if any payment or distribution by Spinnaker or its affiliates to Mr. Jarvis is subject to Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), Spinnaker is required to compensate him for the amount of any excise tax imposed on any payments or distributions pursuant to Section 4999 of the Code and for any taxes imposed on that additional payment. Section 4999 of the Code addresses additional taxes payable in the event of a change in control of Spinnaker.

Mr. Hubbard entered into an employment agreement with Spinnaker effective December 20, 1996. The agreement provides that Mr. Hubbard will receive a minimum annual base salary equal to $165,000 or such amount as the Board of

Directors may, in its sole discretion, determine from time to time. Under the agreement, Mr. Hubbard also may receive bonuses, at the discretion of the Board of Directors, and will be allowed to participate in all benefit plans offered by Spinnaker to similarly situated employees. Either the Board of Directors or Mr. Hubbard can terminate the employment agreement at any time. The initial term of the employment agreement ended on December 31, 1998. Under the terms of the agreement, it automatically became a year-to-year employment agreement. As a result, if his employment is not terminated before December 15, 2002, or on each year thereafter, the term of the agreement will automatically be extended for one additional year.

Mr. Barnes entered into an employment agreement with Spinnaker effective December 20, 1996. The agreement provides that Mr. Barnes will receive a minimum annual base salary equal to $110,000 or such amount as the Board of Directors may, in its sole discretion, determine from time to time. Under the agreement, Mr. Barnes also may receive bonuses, at the discretion of the Board of Directors, and will be allowed to participate in all benefit plans offered by Spinnaker to similarly situated employees. Either the Board of Directors or Mr. Barnes can terminate the employment agreement at any time. The initial term of the employment agreement

ended on December 31, 1998. Under the terms of the agreement, it automatically became a year-to-year employment agreement. As a result, if his employment is not terminated before December 15, 2002, or on each year thereafter, the term of the agreement will automatically be extended for one additional year.

EXECUTIVE COMPENSATION

The following table sets forth certain information for the years ended December 31, 2001, 2000 and 1999 with respect to the compensation of the Chief Executive Officer of the Company and each of its four other most highly compensated executive officers in 2001 (collectively, the "named executive officers"). All information presented in this section is restated to reflect the two-for-one split of the Common Stock effected in September 1999.

Summary Compensation Table

		Annual Compensation		Long-Term Compensation Awards	
Name and Principal Position	Year	Salary	Bonus(1)	Securities Underlying Options	All Other Compensation(2)
Roger L. Jarvis..........	2001	$353,438	$450,000	200,000	$11,250
Chairman of the Board,	2000	285,833	345,100	73,500	11,250
President and	1999	265,000	134,000	236,529	750
Chief Executive Officer					
William D. Hubbard.......	2001	$207,867	$200,000	80,000	$11,250
Vice President--	2000	182,292	134,138	25,000	11,250
Exploration	1999	175,000	60,000	59,960	750
Robert M. Snell (3)......	2001	$220,000	$154,000	--	$ 7,350

Vice President, Chief	2000	--	--	250,000	--
Financial Officer	1999	--	--	--	--
and Secretary					
L. Scott Broussard........	2001	$182,419	$155,000	60,000	$11,250
Vice President--Drilling	2000	155,250	110,228	25,000	10,065
and Production	1999	137,700	62,100	23,798	750
Kelly M. Barnes...........	2001	$149,049	$130,000	60,000	$ 9,693
Vice President--Land	2000	125,375	90,064	25,000	8,273
	1999	118,000	41,300	63,593	750

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(1) Represents annual bonus earned for the fiscal year noted, even if such bonus was paid in the following year.
(2) The All Other Compensation column includes amounts contributed or accrued by the Company under the Spinnaker Exploration Company 401(k) Retirement Savings Plan ("401(k) Plan") and the dollar value of insurance premiums paid by the Company with respect to term life insurance for the benefit of the named executive officer.
(3) Mr. Snell was appointed Vice President, Chief Financial Officer and Secretary of Spinnaker effective December 26, 2000.

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Stock Options Granted in 2001

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Terms(3)	
Name	Number of Securities Underlying Options Granted(1)	% of Total Options Granted to Employees in 2001(2)	Exercise Price Per Share	Expiration Date	5%	10%
Roger L. Jarvis.........	200,000	16.1%	$37.55	05/08/11	$4,722,999	$11,969,006
William D. Hubbard......	32,800	2.6%	38.56	01/11/11	795,406	2,015,714
	47,200	3.8%	37.55	05/08/11	1,114,628	2,824,685
Robert M. Snell.........	--	--	--	--	--	--
L. Scott Broussard......	24,600	2.0%	38.56	01/11/11	596,554	1,511,786
	35,400	2.8%	37.55	05/08/11	835,971	2,118,514
Kelly M. Barnes.........	24,600	2.0%	38.56	01/11/11	596,554	1,511,786
	35,400	2.8%	37.55	05/08/11	835,971	2,118,514

The following table contains information concerning stock option grants in 2001.

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(1) The options expire ten years from the date of grant and vest 20 percent on the grant date and 20 percent on each anniversary of the grant date.
(2) The Board of Directors granted options to purchase 1,242,800 shares of Common Stock in 2001.
(3) Calculated based upon the indicated rates of appreciation, compounded annually, from the date of grant to the end of each option term. Actual

gains, if any, on stock option exercises and Common Stock holdings are dependent upon the future performance of the Common Stock and overall market conditions. There can be no assurance that the amounts reflected in this table will be achieved. The calculation does not take into account the effects, if any, of provisions of the Company's option plans governing termination of options upon employment termination, transferability or vesting.

Stock Option Exercises and Fiscal Year-End Values

The following table contains certain information concerning stock options exercised during 2001 and the value of unexercised options at December 31, 2001.

Name	Shares Acquired on Exercise	Value Realized(1)	Number of Securities Underlying Unexercised Options at December 31, 2001		Value of Unexercised In-the-Money Options December 31, 2001(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisa
Roger L. Jarvis.........	300,000	$10,575,000	903,317	298,712	$25,606,656	$4,203,99
William D. Hubbard......	60,000	2,143,710	229,976	102,984	6,315,468	1,219,41
Robert M. Snell.........	--	--	100,000	150,000	1,428,500	2,142,75
L. Scott Broussard......	2,000	68,703	71,518	83,080	1,783,443	1,123,08
Kelly M. Barnes.........	33,000	1,288,408	128,755	88,438	3,307,227	1,193,55

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(1) The value realized upon exercise of a stock option is equal to the difference between the price of the Common Stock as reported by the New York Stock Exchange on the date of exercise and the exercise price of the stock option multiplied by the number of shares acquired.

(2) The value of each unexercised in-the-money stock option is equal to the difference between the closing price of the Common Stock as reported by the New York Stock Exchange on December 31, 2001 of $41.16 per share and the exercise price of the stock option.

Transactions with Management and Others

The Company paid $17.4 million in 2001 to affiliates of Baker Hughes Incorporated ("Baker Hughes"), an oilfield services company. Mr. Michael E. Wiley, a director of Spinnaker, serves as Chairman of the Board, Chief

Executive Officer and President of Baker Hughes. The Company paid $83,000 in 2001 to Cooper Cameron Corporation ("Cooper Cameron"), an oilfield services company. Mr. Sheldon R. Erikson, a director of Spinnaker, serves as Chairman of the Board, Chief Executive Officer and President of Cooper Cameron. The Company purchases oilfield goods, equipment and services from Baker Hughes, Cooper Cameron and other companies in the ordinary course of business. Spinnaker believes that these transactions are at arms-length and the charges and fees that it pays for such goods, equipment and services are competitive with the charges and fees of other companies providing oilfield goods, equipment and services to the oil and gas exploration and production industry.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee of the Board of Directors in 2001 consisted of Messrs. Harris, Erikson and Wiley. None of the members of the Compensation Committee served as an officer or employee of the Company, and none were formerly an officer of the Company or any of its subsidiaries. None of the Company's executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving as a member of the Board of Directors or Compensation Committee.

The Company paid $17.4 million in 2001 to affiliates of Baker Hughes. Mr. Michael E. Wiley, a director of Spinnaker, serves as Chairman of the Board, Chief Executive Officer and President of Baker Hughes. The Company paid $83,000 in 2001 to Cooper Cameron. Mr. Sheldon R. Erikson, a director of Spinnaker, serves as Chairman of the Board, Chief Executive Officer and President of Cooper Cameron. The Company purchases oilfield goods, equipment and services in the ordinary course of business. Spinnaker believes that these transactions are at arms-length and the charges and fees that it pays for such goods, equipment and services are competitive with the charges and fees of other companies providing oilfield goods, equipment and services to the oil and gas exploration and production industry.

Compensation Committee Report on Executive Compensation

The Compensation Committee oversees the administration of compensation programs applicable to all employees of the Company, including its executive officers. Executive compensation is reviewed and approved annually by the Compensation Committee.

The Compensation Committee seeks to encourage growth in the Company's oil and gas reserves and cash flow and to enhance stockholder value through the creation and maintenance of compensation opportunities that attract and retain committed, highly qualified personnel. To achieve those goals, the Compensation Committee believes that the compensation of all employees, including executive officers, should include the following components:

- A base salary that is competitive with compensation offered by other oil and gas exploration and production enterprises similar to the Company.

- Annual incentive compensation, based on Company performance and profitability, to reward achievement of Company objectives, individual responsibility and productivity, high quality work and impact on Company results.

- Case-specific compensation plans to accommodate individual circumstances or non-recurring situations as required.

Section 162(m) of the Code generally disallows a tax deduction to a public company for compensation paid to its chief executive officer or four other most highly compensated executive officers if the compensation of any such officers exceeds $1.0 million in a particular year. Qualifying performance-based compensation is not subject to the deduction limit if certain requirements are met. A portion of the Company's compensation is performance-based. The Company has structured portions of its performance-based compensation, including certain stock option grants, in a manner that excludes such compensation from the deduction limit.

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The Compensation Committee has not intended and does not currently intend to award compensation to any executive officer that would exceed the deduction limit of Section 162(m), but no assurance can be given that such limit will

not be exceeded. In connection with its policies relating to executive compensation, the Compensation Committee considered the implications of Section 162(m) along with the various other factors described elsewhere in this report in making its executive compensation determinations in 2001.

Company Performance. The Company experienced significant growth rates in both production and reserves in 2001. Performance highlights in 2001 compared to 2000 included record:

- Production of 53.1 billion cubic feet of gas equivalent ("Bcfe"), up 76 percent.
- Proved reserves of 323.2 Bcfe, up 77 percent after production; reserve replacement was 365 percent of production.
- Revenues of $210.4 million, up 73 percent.
- Income from operations of $100.3 million, up 75 percent.
- Net income of $66.2 million, or $2.34 per diluted share, up 72 percent.
- Cash flows from operating activities, before working capital changes, of $189.2 million, up 76 percent.
- Per unit lease operating expenses of $0.23, down 23 percent.

Executive Compensation. Before taking the actions described in this report, the Compensation Committee thoroughly reviewed and discussed the Company's financial and operating results. A summary of the indicators deemed particularly relevant by the Compensation Committee are presented above. Specific actions taken by the Compensation Committee regarding executive compensation are summarized below.

Base salary. The Compensation Committee evaluated peer group information in setting base salary levels. Annual salary adjustments for the Company's executive group are based on general levels of market salary increases, individual performance and the Company's overall financial and operating results, without any specific relative weight assigned to any of these factors.

Incentive Bonus. Awards granted to the named executive officers in February 2002 for the 2001 performance period are presented under "Bonus" in the Summary Compensation Table. Such awards were based on level of responsibility, the Company's performance and on individual productivity, quality of work and impact on the Company's results. The Compensation Committee established awards for each executive after reviewing the recommendations of the Chief Executive Officer.

Stock Option Awards. In January and May 2001, the Compensation Committee granted options to purchase 80,000, 60,000 and 60,000 shares of Common Stock to Messrs. Hubbard, Barnes and Broussard, respectively, to provide incentive with respect to the Company's future performance. Additionally, these awards have a meaningful retention component since 20 percent vest on the grant date and on each succeeding anniversary of the grant date.

401(k) Plan. Under the 401(k) Plan, eligible employees may defer the maximum income allowed under current tax law. Salary deferrals are 100 percent vested. Effective January 1, 2000, the Company began matching employee contributions to the 401(k) Plan. The Company matches 100 percent of each participant's contributions, up to six percent of the participant's annual base salary, with Common Stock.

Chief Executive Officer Compensation. As described above, the Company's executive compensation philosophy, including compensation of the Chief Executive Officer, is a competitive base salary and incentive compensation based upon the Company's performance. Specific actions taken by the Compensation Committee regarding Mr. Jarvis' compensation are summarized below.

Base Salary. The Compensation Committee increased Mr. Jarvis' salary from $290,000 in 2000 to $362,500 effective February 16, 2001. The Compensation Committee considered operating and financial results for 2000 and the compensation received by chief executive officers of comparable companies in the oil and gas exploration and production industry.

Incentive Bonus. The Compensation Committee approved a bonus of $450,000 to Mr. Jarvis for 2001, which was paid in February 2002. This award was based upon the Company's performance and his impact on the Company's results in 2001.

Stock Option Awards. In May 2001, the Compensation Committee granted options to purchase 200,000 shares of Common Stock to Mr. Jarvis to provide incentive with respect to the Company's future performance. This award vests 20 percent on the grant date and on each succeeding anniversary of the grant date.

Compensation Committee

Jeffrey A. Harris
Sheldon R. Erikson
Michael E. Wiley

Report of the Audit Committee

March 1, 2002

To the Board of Directors:

We have reviewed and discussed with management the Company's audited financial statements as of and for the year ended December 31, 2001.

We have discussed with the independent public accountants the matters required to be discussed by Statement of Auditing Standards No. 61, Communication with Audit Committees, as amended by the Auditing Standards Board of the American Institute of Certified Public Accountants.

We have received and reviewed the written disclosures and the letter from the independent public accountants required by Independence Standard No. 1, Independence Discussions with Audit Committees, as amended by the Independence Standards Board, and have discussed with the independent public accountants their independence.

Based on the review and discussions referred to above, we recommend to the Board of Directors that the financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

Audit Committee

Michael E. McMahon
Michael G. Morris
Michael E. Wiley

Fiscal 2001 Audit Fee Summary

During fiscal year 2001, Arthur Andersen LLP ("Andersen") provided services in the following categories and amounts:

Audit Fees	$155,500
Financial Information Systems Design and Implementation Fees	$ --
All Other Fees	$ 91,220

All Other Fees include costs primarily related to federal and state income tax filings and registration statements. The Audit Committee has considered whether the provision of non-audit services by the Company's independent public accountants is compatible with maintaining auditor independence.

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Stockholder Return Performance Presentation

As required by applicable rules of the Securities and Exchange Commission, the performance graph shown below was prepared based upon the following assumptions:

1. $100 was invested in Common Stock on September 29, 1999, and $100 was invested in each of the S&P 500 Index, the S&P 400 Oil/Gas--Exploration/Production Index and the New Peer Group (as defined below) on September 29, 1999 at the closing price on such date.

2. The New Peer Group investment is weighted based on the market capitalization of each individual company within the applicable peer group at the beginning of the period and each year.

3. Dividends are reinvested on the ex-dividend dates.

The old industry peer group was comprised of the following: Basin Exploration, Inc., Chieftain International, Inc., The Houston Exploration Company, Newfield Exploration Company and Stone Energy Corporation. Considering the Company's growth and recent acquisitions of Basin Exploration, Inc. and Chieftain International, Inc. by other companies, the Company revised its peer group to include companies that it considers more representative because they are closer in size and scope of operations when compared to the Company. The new industry peer group (the "New Peer Group") is comprised of the following: Forest Oil Corp., The Houston Exploration Company, Newfield Exploration Company, Noble Affiliates, Inc., Pogo Producing Company, Stone Energy Corporation and Westport Resources Corporation.

[Graph appears here]

	09/29/99	12/31/99	12/31/00	12/31/01

Spinnaker Exploration Company..........	$100	$ 97.41	$293.09	$283.85
S&P 500 Index..........................	$100	$111.73	$101.56	$ 89.49
S&P 400 Oil/Gas-Exploration/Production Index................................	$100	$ 85.81	$156.64	$147.37
New Peer Group.........................	$100	$ 81.33	$142.41	$109.65

The foregoing stock price performance comparisons shall not be deemed incorporated by reference by any general statement incorporating by reference this Definitive Proxy Statement into any filing under the Securities

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Act of 1933 or under the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates this graph by reference, and shall not otherwise be deemed filed under such Acts.

There can be no assurance that the Company's stock performance will continue into the future with the same or similar trends depicted in the performance graph. The Company will not make or endorse any predictions as to future stock performance.

APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS
(Proposal Two)

The Audit Committee, under the authority granted to it by the Board of Directors, appointed KPMG LLP as independent public accountants to audit the consolidated financial statements of the Company for the year ending December 31, 2002.

Ratification of this appointment shall be effective upon receiving the affirmative vote of the holders of a majority of the Common Stock present or represented by proxy and entitled to vote at the Annual Meeting. Accordingly, an abstention or a broker non-vote would have the same effect as a vote against this proposal.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" RATIFICATION OF THIS APPOINTMENT.

The Audit Committee annually considers and recommends to the Board of Directors the selection of the Company's independent public accountants. On April 5, 2002, the Audit Committee, under the authority granted to it by the Board of Directors, decided to dismiss Arthur Andersen LLP as Spinnaker's independent public accountants and engaged KPMG LLP to serve as Spinnaker's independent public accountants for 2002.

Andersen's reports on the Company's consolidated financial statements for either of the past two fiscal years did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company's two most recent fiscal years and the period from January 1, 2002 through April 5, 2002, there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Andersen, would have caused Andersen to make reference to the subject matter of the disagreements in connection with Andersen's report; and during such period there were no "reportable events" of the kind listed in Item 304(a)(1)(v) of Regulation S-K.

The Company provided Andersen with a copy of the foregoing disclosure and requested Andersen to furnish Spinnaker with a letter addressed to the Securities and Exchange Commission stating whether it agrees with the statements by the Company in the foregoing disclosure and, if not, stating the respects in which it does not agree. Andersen's letter was filed as Exhibit 16.1 to the Company's Current Report on Form 8-K dated April 5, 2002.

During the Company's two most recent fiscal years and through April 5, 2002, it did not consult KPMG LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matters or reportable events listed in Items 304(a)(2)(i) and (ii) of Regulation S-K.

In the event the appointment is not ratified, the Board of Directors will consider the appointment of other independent public accountants. The Board of Directors may terminate the appointment of KPMG LLP as the Company's independent public accountants without the approval of the stockholders of the Company whenever the Board of Directors deems such termination necessary or appropriate. A representative of KPMG LLP is expected to be present at the Annual Meeting, will be offered the opportunity to make a statement if such representative desires to do so and will be available to respond to appropriate questions.

OTHER MATTERS

The Board of Directors does not know of any other matters that are to be presented for action at the Annual Meeting. However, if any other matters properly come before the Annual Meeting or any adjournments(s) thereof, it is intended that the enclosed proxy will be voted in accordance with the judgment of the persons voting the proxy.

STOCKHOLDER PROPOSALS AND NOMINATIONS

Any stockholder who wishes to submit a proposal for inclusion in the proxy material for the Company's 2003 Annual Meeting of Stockholders must forward such proposal to the Secretary of the Company at the address indicated on the cover page of this proxy statement, so that the Secretary receives it no later than November 26, 2002.

In addition, the Company's Bylaws provide that only such business as is properly brought before the Annual Meeting will be conducted. For business to be properly brought before the meeting or for nominations of persons for election to the Board of Directors to be properly made at the Annual Meeting by a stockholder, notice must be received by the Secretary of the Company at the address indicated on the cover page not earlier than January 7, 2003 and not later than February 6, 2003.

On request, the Secretary of the Company will provide detailed instructions for submitting proposals or nominations.

By Order of the Board of Directors

/s/ ROBERT M. SNELL
Robert M. Snell
Secretary

April 10, 2002

Appendix A

SPINNAKER EXPLORATION COMPANY
AUDIT COMMITTEE CHARTER
OF THE BOARD OF DIRECTORS

Purpose

The Audit Committee (the "Committee") of the Board of Directors (the "Board") of Spinnaker Exploration Company ("Spinnaker") is responsible for providing independent and objective oversight of the accounting functions and internal controls of Spinnaker in order to enhance the quality of financial reporting. The primary purpose of the Audit Committee Charter ("Charter") is to document the scope of the Committee's responsibilities and how it carries out those responsibilities, including the structure, processes and membership requirements.

Scope of Responsibilities

Oversight of Quarterly and Annual Financial Reporting

The Committee shall consider relevance, reliability, comparability and clarity in its oversight of the quality of quarterly and annual financial reporting. The Committee shall engage in meaningful discussions with management and the independent public accountants about the quality, not just the acceptability, of financial reporting decisions and judgments.

The Committee shall review with management and the independent public accountants annual consolidated financial statements and such other consolidated financial statements and information as the Committee so determines. Following the satisfactory completion of each year-end review, the Committee shall recommend to the Board the inclusion of the audited consolidated financial statements in the Annual Report on Form 10-K.

Independent Public Accountants

The Committee and the Board shall have the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the independent public accountants. The Committee shall recommend to the Board the firm to be employed by Spinnaker as its independent public accountants, which firm shall be ultimately accountable to the Board and the Committee as representatives of stockholders. The Committee shall evaluate the independent public accountants on an annual basis.

The Committee is responsible for ensuring the independent public accountants periodically submit to the Committee a formal written statement regarding relationships and services which may affect objectivity and independence, for discussing any matters relating to the independent public accountants' independence and for recommending that the full Board take appropriate action to address the independent public accountants' independence.

Audits

The Committee's function is one of oversight and review, and it is not expected to audit Spinnaker, to define the scope of the audit, to control Spinnaker's accounting practices or to define the standards to be used in preparation of the consolidated financial statements. The Committee shall consult with the independent public accountants regarding the plan of audit.

The Committee shall also review with the independent public accountants their report on the audit. The Committee shall maintain independent communication and information flow with the independent public accountants and actively review and assess the scope of their work and the quality of their performance.

Accounting Principles

The Committee shall review significant developments in accounting rules. The Committee shall also review with management and the independent public accountants issues involving judgment and affecting quality and significant proposed changes in Spinnaker's methods of accounting or consolidated financial statements.

Critical Accounting Policies

The Committee shall review the selection, application and disclosure of critical accounting policies and have proactive discussions with management and the independent public accountants about these critical accounting policies.

Internal Accounting Controls

The Committee shall consult with management and the independent public accountants regarding the adequacy of internal accounting controls. This consultation should be conducted out of management's presence, where appropriate.

Business Risk Management

The Committee shall oversee and improve the business risk management process, which is the process through which Spinnaker identifies and controls business and financial reporting risks.

Compliance with Laws and Regulations

The Committee shall review with management Spinnaker's internal control systems intended to ensure the reliability of financial reporting and compliance with applicable laws and regulations. The review shall include any significant problems and regulatory concerns.

Ethical Environment

The Committee shall review with management the establishment and maintenance of an environment that promotes ethical behavior, including the establishment, communication and enforcement of codes of conduct to guard against dishonest, unethical or illegal activities.

Oversight of Directors and Executive Officers and Conflicts of Interest

The Committee shall review significant conflicts of interest involving directors and executive officers. The Committee shall review compliance with Spinnaker's policies and procedures with respect to officers' expense accounts and perquisites, including their use of corporate assets. The Committee also shall review any questionable or illegal payments.

In the event that a Committee member faces a potential or actual conflict of interest with respect to a matter before the Committee, that Committee member shall be responsible for alerting the Committee Chairman, and in the

case where the Committee Chairman faces a potential or actual conflict of interest, the Committee Chairman shall advise the Chairman of the Board. In the event that the Committee Chairman or the Chairman of the Board concurs that a potential or actual conflict of interest exists, an independent substitute director shall be appointed as a Committee member until the matter posing the potential or actual conflict of interest is resolved.

Charter Amendments

The Committee shall review this Charter annually, assess its adequacy and propose appropriate amendments to the Board.

Communications to the Board

The Committee shall report to the Board from time to time with respect to its activities and its recommendations. When presenting any recommendation or advice to the Board, the Committee shall provide such background and supporting information as may be necessary for the Board to make an informed decision. The Committee shall keep minutes of its meetings and make such minutes available to the full Board for its review.

Communications to Stockholders

The Committee shall report to stockholders in Spinnaker's proxy statement for its annual meeting the information required by law.

Other Authority

The Committee is authorized to confer with Spinnaker management and other employees to the extent it may deem necessary or appropriate to fulfill its duties. The Committee is authorized to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee also is authorized to seek outside legal or other advice to the extent it deems necessary or appropriate, provided it shall keep the Board advised as to the nature and extent of such outside advice. The Committee will perform such other functions as are authorized for this Committee by the Board.

Composition and Membership Requirements

The Board shall appoint not less than three independent directors to the Committee. "Independent director" means a person other than an officer or employee of Spinnaker or its subsidiaries or any other individual having a relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Members of the Committee shall be financially literate or become financially literate within a reasonable period of time after appointment to the Committee and at least one member of the Committee shall have accounting, related financial management expertise or any other comparable experience or background that results in the individual's financial sophistication. The Committee will self-assess the financial literacy and other skills of Committee members against those skills that are needed to fulfill the Committee's roles and responsibilities on an annual basis. The Committee will solicit feedback on the skill requirements and skill gaps of the Committee and assess the contribution and performance of individual Committee members from the Board, management and independent public accountants. The Committee shall continually monitor membership requirements.

Quorum and Committee Meetings

A quorum of the Committee shall be declared when a majority of the appointed members of the Committee are in attendance. The Committee shall, at a minimum, meet quarterly. Additional meetings shall be scheduled at the discretion of the Chairman. The Committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.

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SPINNAKER EXPLORATION COMPANY

Proxy for Annual Meeting of Stockholders--May 7, 2002

This Proxy is Solicited on Behalf of the Spinnaker Exploration Company Board of Directors

The undersigned hereby appoints Roger L. Jarvis, Robert M. Snell and Jeffrey C. Zaruba, and each of them, proxies for the undersigned with full power of substitution, to vote all shares of Spinnaker Exploration Company Common Stock which the undersigned may be entitled to vote at the Annual Meeting of Stockholders of Spinnaker Exploration Company to be held in Houston, Texas, on Tuesday, May 7, 2002 at 9:00 a.m., or at any adjournment thereof, upon the matters set forth on the reverse side and described in the accompanying Proxy Statement and upon such other business as may properly come before the meeting or any adjournment thereof.

PLEASE MARK THIS PROXY AS INDICATED ON THE REVERSE SIDE TO VOTE ON ANY ITEM. IF YOU WISH TO VOTE IN ACCORDANCE WITH THE BOARD OF DIRECTORS' RECOMMENDATIONS, PLEASE SIGN THE REVERSE SIDE, NO BOXES NEED TO BE CHECKED.

(CONTINUED AND TO BE SIGNED ON OTHER SIDE)

SPINNAKER EXPLORATION COMPANY
PLEASE MARK VOTE IN OVAL IN THE FOLLOWING MANNER USING DARK INK ON

1. ELECTION OF DIRECTORS 1) Roger L. Jarvis, 2) Sheldon R. Erikson, 3) Jeffrey A. Harris, 4) Michael E. McMahon, 5) Howard H. Newman, 6) Michael G. Morris and 7) Michael E. Wiley	For All [ ]	Withheld All [ ]	For all Except [ ]	Nominee Except --------------- ---------------
2. TO RATIFY SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS	For [ ]	Against [ ]	Abstain [ ]	

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ITEMS 1 AND 2.

NOTE: Pl
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ft"> Income tax expense 44 268 78 317 Net income $308 $518 $591 $898 Basic and diluted earnings per share of common stock $0.11 $0.19 $0.21 $0.32 Weighted average shares of common stock outstanding 2,776,546 2,767,521 2,776,053 2,767,331 Dividends declared per share of common stock $0.10 $0.10 $0.10 $0.20

See accompanying notes to condensed consolidated financial statements.

GLEN BURNIE BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$ 308	$ 518	$ 591	$ 898
Other comprehensive income (losses), net of tax				
Unrealized gains on securities:				
Unrealized holding gains (losses) arising during the period	663	(720)	1,096	(435)
Reclassification adjustment for gains included in net income	-	(163)	(1)	(282)
Comprehensive income (losses)	$ 971	$ (365)	$ 1,686	$ 181

See accompanying notes to condensed consolidated financial statements.

GLEN BURNIE BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$ 591	$ 898
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	590	508
Provision for credit losses	117	300
Gains on disposals of assets, net	(1)	(847)
Income on investment in life insurance	(107)	(109)
Changes in assets and liabilities:		
Decrease in other assets	101	25
Decrease in other liabilities	(110)	(493)
Net cash provided by operating activities	1,181	282
Cash flows from investing activities:		
Maturities and proceeds of available for sale mortgage-backed securities	8,215	7,078
Proceeds from maturities and sales of other investment securities	3,767	14,304
Purchases of investment securities	(14,457)	(41,910)
Sale of Federal Home Loan Bank stock	3	125
Decrease in loans, net	5,904	7,890
Proceeds from sale of premises and equpment	-	378
Purchases of premises and equipment	(118)	(301)
Net cash provided (used) by investing activities	3,314	(12,436)
Cash flows from financing activities:		
Increase in deposits, net	4,103	9,726
Dividends paid	(555)	(552)
Common stock dividends reinvested	90	79
Net cash provided by financing activities	3,638	9,253
Increase (decrease) in cash and cash equivalents	8,133	(2,901)
Cash and cash equivalents, beginning of year	12,371	13,280

Cash and cash equivalents, end of period	$ 20,504	$ 10,379

See accompanying notes to condensed consolidated financial statements.

GLEN BURNIE BANCORP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed balance sheet as of December 31, 2015, which has been derived from audited financial statements, and the unaudited interim consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations, changes in stockholders' equity, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the unaudited consolidated financial statements have been included in the results of operations for the six months ended June 30, 2016 and 2015.

Operating results for the six months ended June 30, 2016 is not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

NOTE 2 - EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by including the average dilutive common stock equivalents outstanding during the periods. Dilutive common equivalent shares consist of stock options, calculated using the treasury stock method.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic and diluted:				
Net income	$308,000	$518,000	$591,000	$898,000
Weighted average common shares outstanding	2,776,546	2,767,521	2,776,053	2,767,331
Basic and dilutive net income per share	$0.11	$0.19	$0.21	$0.32

Diluted earnings per share calculations were not required for the six months ended June 30, 2016 and 2015, since there were no options outstanding.

NOTE 3 – LOANS AND ASSET QUALITY

Asset Quality. The following tables set forth the amount of the Bank's current, past due, and non-accrual loans by categories of loans and restructured loans, at the dates indicated.

At June 30, 2016 (Dollars in Thousands)	Current	30-89 Days Past Due	90 Days or More and Still Accruing	Nonaccrual	Total
Commercial and industrial	$4,509	$ -	$ -	$ -	$4,509
Commercial real estate	62,139	-	-	618	62,757
Consumer and indirect	76,210	1,164	-	389	77,763
Residential real estate	109,630	315	177	1,658	111,780
	$252,488	$ 1,479	$ 177	$ 2,665	$256,809

At December 31, 2015 (Dollars in Thousands)	Current	30-89 Days Past Due	90 Days or More and Still Accruing	Nonaccrual	Total
Commercial and industrial	$4,540	$ -	$ -	$ -	$4,540
Commercial real estate	64,270	2	-	-	64,272
Consumer and indirect	73,568	1,122	16	597	75,303
Residential real estate	115,715	806	39	3,183	119,743
	$258,093	$ 1,930	$ 55	$ 3,780	$263,858

The balances in the above charts have not been reduced by the allowance for loan loss and the unearned income on loans. For the period ending June 30, 2016, the allowance for loan loss is $2,291,000 and the unearned income is $1,028,000. For the period ending December 31, 2015, the allowance for loan loss is $3,150,000 and the unearned income is $1,071,000.

	At June 30, 2016		At December 31, 2015	
	(Dollars in Thousands)			
Troubled debt restructured loans	$ 322		$ 290	
Non-accrual and 90 days or more and still accruing loans to gross loans	1.11	%	1.45	%
Allowance for credit losses to non-accrual and 90 days or more and still accruing loans	80.61	%	82.14	%

At June 30, 2016 there were three troubled debt restructured loans consisting of a commercial loan of $235,000, a residential real estate loan of $49,000 and a consumer loan of $38,000. The consumer loan was restructured during the quarter ended June 30, 2016 and is currently on nonaccrual. The commercial loan had a troubled debt restructured balance of $241,000 and the residential real estate loan had a balance of $49,000 at December 31, 2015.

At June 30, 2016, there was $1,206,000 in loans outstanding, included in the current and 30-89 days past due columns in the above table, as to which known information about possible credit problems of borrowers caused management to have doubts as to the ability of such borrowers to comply with present loan repayment terms. Such loans consist of loans which were not 90 days or more past due but where the borrower is in bankruptcy or has a history of delinquency, or the loan to value ratio is considered excessive due to deterioration of the collateral or other factors. The three loans outstanding, totaling $1,206,000, are as follows: $803,000 Commercial Real Estate loan where the guarantor is in bankruptcy and the loan has an accelerated payoff since we have an assignment of rents from the property which has a very long-term national tenant; $168,000 Home Equity Line of Credit which is paying as agreed, however the borrower has defaulted on other commercial loans which have been satisfied; and a $235,000 Commercial loan with a loan to value ratio which has deteriorated, which has a complete specific reserve of $235,000. All three of these loans are classified with a risk rating of Substandard.

Non-accrual loans with specific reserves at June 30, 2016 are comprised of:

Consumer loans – Two loans to two borrowers in the amount of $136,000 with a specific reserve of $56,000 established for the loans.

Commercial Real Estate – One loan to one borrower in the amount of $292,000, secured by commercial and/or residential properties with a specific reserve of $92,000 established for the loan.

Residential Real Estate – One loan to one borrower in the amount of $49,000, secured by residential property with a specific reserve of $12,000 established for the loan.

Below is a summary of the recorded investment amount and related allowance for losses of the Bank's impaired loans at June 30, 2016 and December 31, 2015.

(Dollars in thousands)

June 30, 2016	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	$ 49	49	-	12	50
Commercial	292	292	-	92	303
Consumer	136	136	-	56	168
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	235	235	5	235	237
Total impaired loans with specific reserves	$ 712	712	5	395	758
Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	$ 1,896	2,863	11	n/a	2,874
Commercial	1,129	1,129	23	n/a	1,145
Consumer	38	38	-	n/a	72
Installment	288	288	-	n/a	288
Home Equity	-	-	-	n/a	-
Commercial	2	2	-	n/a	3
Total impaired loans with no specific reserve	$ 3,353	4,320	34	-	4,382

(Dollars in thousands)

December 31, 2015	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	$ 1,809	1,809	57	697	1,820
Commercial	300	300	-	101	315
Consumer	146	146	-	65	170
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	241	241	10	241	247
Total impaired loans with specific reserves	$ 2,496	2,496	67	1,104	2,552
Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	$ 983	1,116	14	n/a	1,171
Commercial	843	843	38	n/a	876
Consumer	365	449	2	n/a	453
Installment	440	440	-	n/a	-
Home Equity	-	-	-	n/a	-
Commercial	-	-	-	n/a	-
Total impaired loans with no specific reserve	$ 2,631	2,848	54	-	2,500

Credit Quality Information

The following tables represent credit exposures by creditworthiness category for the quarter ending June 30, 2016 and the year ended December 31, 2015. The use of creditworthiness categories to grade loans permits management to estimate a portion of credit risk. The Bank’s internal creditworthiness is based on experience with similarly graded credits. Loans that trend upward toward higher credit grades typically have less credit risk and loans that migrate downward typically have more credit risk.

The Bank’s internal risk ratings are as follows:

1 Superior – minimal risk (normally supported by pledged deposits, United States government securities, etc.)

2 Above Average – low risk. (all of the risks associated with this credit based on each of the bank’s creditworthiness criteria are minimal)

3 Average – moderately low risk. (most of the risks associated with this credit based on each of the bank’s creditworthiness criteria are minimal)

4

Acceptable – moderate risk. (the weighted overall risk associated with this credit based on each of the bank's creditworthiness criteria is acceptable)

5 Other Assets Especially Mentioned – moderately high risk. (possesses deficiencies which corrective action by the bank would remedy; potential watch list)

6 Substandard – (the bank is inadequately protected and there exists the distinct possibility of sustaining some loss if not corrected)

7 Doubtful – (weaknesses make collection or liquidation in full, based on currently existing facts, improbable)

8 Loss – (of little value; not warranted as a bankable asset)

Loans rated 1-4 are considered "Pass" for purposes of the risk rating chart below.

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Risk ratings of loans by categories of loans are as follows:

June 30, 2016 (Dollars in Thousands)	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	$ 4,198	$ 57,462	$ 75,570	$ 109,815	$247,045
Special mention	77	3,874	1,362	507	5,820
Substandard	234	1,421	667	1,458	3,780
Doubtful	-	-	164	-	164
Loss	-	-	-	-	-
	$ 4,509	$ 62,757	$ 77,763	$ 111,780	$256,809
Non-accrual	-	618	389	1,658	2,665
Troubled debt restructures	235	-	38	49	322
Number of TDRs contracts	1	-	1	1	3
Non-performing TDRs	-	-	-	-	-
Number of TDR accounts	-	-	-	-	-

December 31, 2015 (Dollars in Thousands)	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	$ 3,879	$ 58,706	$ 72,976	$ 116,596	$252,157
Special mention	168	4,422	1,653	539	6,782
Substandard	493	1,144	509	2,076	4,222
Doubtful	-	-	165	532	697
Loss	-	-	-	-	-
	$ 4,540	$ 64,272	$ 75,303	$ 119,743	$263,858
Non-accrual	-	-	597	3,183	3,780
Troubled debt restructures	241	-	-	49	290
Number of TDRs contracts	1	-	-	1	2
Non-performing TDRs	-	-	-	-	-
Number of TDR accounts	-	-	-	-	-

NOTE 4 – FAIR VALUE

ASC 820-10 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements.

Fair Value Hierarchy

ASC 820-10 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. In accordance with ASC 820-10, these inputs are summarized in the three broad levels listed below:

- Level 1 – Quoted prices in active markets for identical securities

- Level 2 – Other significant observable inputs (including quoted prices in active markets for similar securities)

- Level 3 – Significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to ASC 820-10.

The Company's bond holdings in the investment securities portfolio are the only asset or liability subject to fair value measurements on a recurring basis. At June 30, 2016, these assets include 26 loans, excluding $288,000 of consumer and indirect loans, classified as impaired, which include nonaccrual, past due 90 days or more and still accruing, and a homogeneous pool of indirect loans all considered to be impaired loans, which are valued under Level 3 inputs. Loans which are deemed to be impaired ($4.1 of loans with $395,000 of specific reserves as of June 30, 2016) and foreclosed real estate assets are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. The Company is predominantly a cash flow lender with real estate serving as collateral on a majority of loans ($3.7 million of the total impaired loans as of June 30, 2016). On a quarterly basis, the Company determines such fair values through a variety of data points and mostly rely on appraisals from independent appraisers. We obtain an appraisal on properties when they become impaired and have new appraisals at least every year. Typically, these appraisals do not include an inside inspection of the property as our loan documents do not require the borrower to allow access to the property. Therefore the most significant unobservable inputs is the details of the amenities included within the property and the condition of the property. Further, we cannot always accurately assess the amount of time it takes to gain ownership of our collateral through the foreclosure process and the damage, as well as potential looting, of the property further decreasing our value. Thus, in determining the fair values we discount the current independent appraisals, with a range from 0% to 16%, based on individual circumstances. The remaining impaired loans ($463,000 with $57,000 of specific reserves as of June 30, 2016) include mobile homes and indirect auto loans, which are valued based on the value of the underlying collateral.

The changes in the assets subject to fair value measurements are summarized below by Level:

	Level 1	Level 2	Level 3	Fair Value
June 30, 2016				
Recurring:				
Securities available for sale				
U.S. Treasury	$ -	$3,999,186	$-	$3,999,186
State and Municipal	-	32,893,048	-	32,893,048
Mortgaged-backed	-	65,788,336	-	65,788,336
Non-recurring:				
Maryland Financial Bank stock	-	-	30,000	30,000
Impaired loans	-	-	3,670,238	3,670,238
OREO		200,605	-	200,605
	$ -	$102,881,175	$3,700,238	$106,581,413
December 31, 2015				

Recurring:				
Securities available for sale				
U.S. Treasury	$ -	$2,991,485	$-	$2,991,485
State and Municipal	-	29,996,099	-	29,996,099
Mortgaged-backed	-	65,802,426	-	65,802,426
Non-recurring:				
Maryland Financial Bank stock	-	-	30,000	30,000
Impaired loans	-	-	4,023,092	4,023,092
OREO	-	74,400	-	74,400
	$ -	$98,864,410	$4,053,092	$102,917,502

The estimated fair values of the Company's financial instruments at June 30, 2016 and December 31, 2015 are summarized below. The fair values of a significant portion of these financial instruments are estimates derived using present value techniques and may not be indicative of the net realizable or liquidation values. Also, the calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

	June 30, 2016		December 31, 2015	
(In Thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$6,481	$6,481	$7,493	$7,493
Interest-bearing deposits	2,671	2,671	2,308	2,308
Federal funds sold	11,352	11,352	2,570	2,570
Investment securities	102,681	102,681	98,790	98,790
Investments in restricted stock	1,200	1,200	1,203	1,203
Ground rents	164	164	164	164
Loans, net	253,490	255,895	259,637	252,239
Cash Value of life insurance	9,465	9,465	9,358	9,358
Accrued interest receivable	1,133	1,133	1,121	1,121
Financial liabilities:				
Deposits	339,295	331,141	335,191	307,924
Long-term borrowings	20,000	20,818	20,000	20,688
Dividends payable	-	-	-	-
Accrued interest payable	38	38	40	40

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments.

June 30, 2016	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial instruments - Assets					
Cash and cash equivalents	$20,504,113	$20,504,113	$20,504,113	$-	$-
Loans receivable, net	253,489,999	255,895,000	-	-	255,895,000
Cash value of life insurance	9,464,684	9,464,684	-	9,464,684	-
Financial instruments - Liabilities					
Deposits	339,294,987	331,141,000	217,945,000	113,196,000	-
Long-term debt	20,000,000	20,818,000	-	20,818,000	-

Fair values are based on quoted market prices for similar instruments or estimated using discounted cash flows. The discounts used are estimated using comparable market rates for similar types of instruments adjusted to be commensurate with the credit risk, overhead costs and optionality of such instruments.

The fair value of cash and due from banks, federal funds sold, investments in restricted stocks and accrued interest receivable are equal to the carrying amounts. The fair values of investment securities are determined using market quotations. The fair value of loans receivable is estimated using discounted cash flow analysis.

The fair value of non-interest bearing deposits, interest-bearing checking, savings, and money market deposit accounts, securities sold under agreements to repurchase, and accrued interest payable are equal to the carrying amounts. The fair value of fixed-maturity time deposits is estimated using discounted cash flow analysis.

The gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2016 are as follows:

Securities available for sale: (Dollars in Thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. Govt Agencies	$ -	$ -	$ -	$ -	$-	$ -
State and Municipal	2,970	22	506	4	3,476	26
Corporate Trust Preferred	-			-	-	-
Mortgage Backed	5,742	49	9,309	78	15,051	127
	$ 8,712	$ 71	$ 9,815	$ 82	$18,527	$ 153

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary-impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain it's investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of June 30, 2016, management had the ability and intent to hold the securities classified as available for sale for a period of time sufficient for a recovery of cost. On June 30, 2016, the Bank held 16 investment securities having continuous unrealized loss positions for more than 12 months. Management has determined that all unrealized losses are either due to increases in market interest rates over the yields available at the time the underlying securities were purchased, current call features that are nearing, and the effect the sub-prime market has had on all mortgage-backed securities. The Bank has no mortgage-backed securities collateralized by sub-prime mortgages. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Except as noted above, as of June 30, 2016, management believes the impairments detailed in the table above are temporary and no impairment loss has been recognized in the Company's consolidated income statement.

A rollforward of the cumulative other-than-temporary credit losses recognized in earnings for all debt securities for which a portion of an other-than-temporary loss is recognized in accumulated other comprehensive loss is as follows:

	At June 30,	At December 31,

	2016	2015
	(Dollars in Thousands)	
Estimated credit losses, beginning of year	$ -	$ 3,262
Sales of securities with previous OTTI recognized		(3,262)
Credit losses - no previous OTTI recognized	-	-
Credit losses - previous OTTI recognized	-	-
Estimated credit losses, end of period	$ -	$ -

NOTE 5 – RECENT ACCOUNTING PRONOUNCEMENTS

The FASB has issued several exposure drafts which, if adopted, would significantly alter the Company's (and all other financial institutions') method of accounting for, and reporting, its financial assets and some liabilities from a historical cost method to a fair value method of accounting as well as the reported amount of net interest income. The Company has not determined the extent of the possible changes at this time. The exposure drafts are in different stages of review, approval and possible adoption.

In May 2014, the FASB issued *ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)."* ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for the Corporation on January 1, 2017. The Corporation is still evaluating the potential impact on the Corporation's financial statements.

In May 2014, the FASB and the International Accounting Standards Board (the "IASB") jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP and International Financial Reporting Standards ("IFRS"). Previous revenue recognition guidance in GAAP comprised broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. In contrast, IFRS provided limited revenue recognition guidance and, consequently, could be difficult to apply to complex transactions. Accordingly, the FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would: (1) Remove inconsistencies and weaknesses in revenue requirements; (2) Provide a more robust framework for addressing revenue issues; (3) Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) Provide more useful information to users of financial statements through improved disclosure requirements; and (5) Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. To meet those objectives, the FASB issued ASU No. 2014-09, *"Revenue from Contracts with Customers."* The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard is now effective for public entities for interim and annual periods beginning after December 15, 2017; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of ASU No. 2014-09 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-12, *"Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period."* The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, *Compensation - Stock Compensation*, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the

award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in this ASU are effective for interim or annual reporting periods beginning after December 15, 2015; early adoption is permitted. Entities may apply the amendments in this ASU either: (1) prospectively to all awards granted or modified after the effective date; or (2) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. As of June 30, 2014, the Company did not have any share-based payment awards that include performance targets that could be achieved after the requisite service period. As such, the adoption of ASU No. 2014-12 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In June 2014, the FASB issued *ASU 2014-11, "Transfers and Servicing (Topic 860)."* ASU 2014-11 requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. ASU 2014-11 requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral, remaining contractual tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 became effective for us on January 1, 2015 and did not have a significant impact on our financial statements.

In January 2015, the FASB issued *ASU 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) – Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items."* ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 is effective for us beginning January 1, 2016, though early adoption is permitted. ASU 2015-01 is not expected to have a significant impact on our financial statements.

In February 2015, the FASB issued *ASU 2015-02, "Consolidation (Topic 810) – Amendments to the Consolidation Analysis."* ASU 2015-02 implements changes to both the variable interest consolidation model and the voting interest consolidation model. ASU 2015-02 (i) eliminates certain criteria that must be met when determining when fees paid to a decision maker or service provider do not represent a variable interest, (ii) amends the criteria for determining whether a limited partnership is a variable interest entity and (iii) eliminates the presumption that a general partner controls a limited partnership in the voting model. ASU 2015-02 will be effective for us on January 1, 2016 and is not expected to have a significant impact on our financial statements.

In April 2015, the FASB issued *ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs."* ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. ASU 2015-03 will be effective for us on January 1, 2016, though early adoption is permitted. ASU 2015-03 is not expected to have a significant impact on our financial statements.

In May 2015, the FASB issued *ASU 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) – Customer's Accounting for Fees Paid in a Cloud Computing Arrangement."* ASU 2015-05 addresses accounting for fees paid by a customer in cloud computing arrangements such as (i) software as a service, (ii) platform as a service (iii) infrastructure as a service and (iv) other similar hosting arrangements. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element

of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 will be effective for us on January 1, 2016 and is not expected to have a significant impact on our financial statements.

In May 2015, the FASB issued *ASU 2015-09, "Financial Services-Insurance: Disclosures About Short-Duration Contracts."* ASU 2015-09 requires entities to provide additional disclosures about the liability for unpaid claims and claim adjustment expenses to increase the transparency of significant estimates. ASU 2015-09 also requires entities to disclose information about significant changes in methodologies and assumption used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. ASU 2015-09 also requires entities to disclose a rollforward of the liability of unpaid claims and claim adjustment expense for annual and interim reporting periods. The effective date of ASU 2015-09 is for annual reporting periods beginning after December 15, 2015, and interim reporting periods within annual period beginning after December 15, 2016. ASU 2015-09 is not expected to have any impact on the Company's financial position, cash flows or results of operations.

In August 2015, the FASB issued *ASU 2015-14, "Revenue from Contracts with Customers—Deferral of the Effective Date"*. ASU 2015-14 defers the effective date of ASU 2014-09 "Revenue from Contracts with Customers which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition" by one year. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. Under ASU 2015-14, ASU 2014-09 is now effective for annual periods beginning after December 15, 2017, and interim periods within those years. The Company is currently evaluating the effects of ASU 2014-09 on its financial statements and disclosures, if any.

In August 2015, the FASB issued *ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements"*. ASU 2015-15 expands guidance provided in ASU 2015-03 and states that presentation of costs associated with securing a revolving line of credit as an asset is permitted, regardless of whether or not the line of credit is funded. ASU 2015-15 is effective for annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2015, and early adoption is permitted. The Company is currently evaluating the effects of ASU 2015-15 on its financial statements and disclosures, if any.

In September 2015, the FASB issued *ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments"*. ASU 2015-16 simplifies the accounting for measurement-period adjustments in a business combination by requiring the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined, thereby eliminating the requirement to retrospectively account for those adjustments. The acquirer is also required to record in the reporting period in which the adjustments are determined the effect on earnings of changes in depreciation, amortization, and other items resulting from the change to the provisional amounts. ASU 2015-16 is effective for annual periods beginning after December 31, 2015, with early application permitted, and shall apply to adjustments to provisional amounts that occur after the effective date. ASU 2015-16 is not expected to have any significant impact on our financial statements.

In January 2016, the FASB issued *ASU 2016-1, "No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-1 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

In February 2016, the FASB issued *ASU 2016-02 "Leases (Topic 842)."* ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, "Revenue from Contracts with Customers." ASU 2016-2 will be effective for us on January 1, 2019 and will require transition using a modified retrospective approach for leases

existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the potential impact of ASU 2016-02 on our financial statements.

In March 2016, the FASB issued *ASU 2016-05 "Derivatives and Hedging (Topic 815) Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships."* ASU 2016-05 *clarifies* that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under ASC Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. *ASU 2016-05* will be effective for us on January 1, 2017 and is not expected to have a significant impact on our financial statements.

In March 2016, the FASB issued *ASU 2016-07, "Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting."* The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. ASU 2016-07 simplifies the transition to the equity method of accounting by eliminating retroactive adjustment of the investment when an investment qualifies for use of the equity method, among other things. ASU 2016-07 will be effective for us on January 1, 2017 and is not expected to have a significant impact on our financial statements.

In March 2016, the FASB issued *ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)."* ASU 2016-08 was issued to clarify certain principal versus agent considerations within the implementation guidance of *ASC Topic 606, "Revenue from Contracts with Customers."* The effective date and transition of ASU 2016-08 is the same as the effective date and transition of *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*, as discussed above. The Company is currently evaluating the potential impact of ASU 2016-08 on our financial statements.

In March 2016, the FASB issued *ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting."* Under ASU 2016-09 all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Because excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. ASU 2016-09 will be effective on January 1, 2017 and is currently not expected to have a significant impact on our financial statements.

In April 2016, the FASB issued *ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing."* ASU 2016-10 was issued to clarify *ASC Topic 606, "Revenue from Contracts with Customers"* related to (i) identifying performance obligations; and (ii) the licensing implementation guidance. The effective date and transition of ASU 2016-10 is the same as the effective date and transition of *ASU 2014-09, "Revenue from Contracts with Customers (Topic 606),"* as discussed above. The Company is currently evaluating the potential impact of ASU 2016-10 on our financial statements.

In May 2016, the FASB issued *ASU No. 2016-12, "Revenue From Contracts With Customers (Topic 606) Narrow-Scope and Practical Expedients"* which updated guidance intended to clarify the guidance previously issued in May 2014 related to the recognition of revenue from contracts with customers. The updated guidance includes narrow-scope improvements intended to address implementation issues and to provide additional practical expedients in the guidance. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In June 2016, the FASB issued *ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments"* which updated guidance intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The updated guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires the consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the impact of the new guidance on its condensed consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

When used in this discussion and elsewhere in this Form 10-Q, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and readers are advised that various factors could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected. While it is impossible to identify all such factors, such factors include, but are not limited to, those risks identified in the Company's periodic reports filed with the Securities and Exchange Commission, including its most recent Annual Report on Form 10-K.

The Company does not undertake and specifically disclaims any obligation to update any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Overview

Glen Burnie Bancorp, a Maryland corporation (the "Company"), through its subsidiary, The Bank of Glen Burnie, a Maryland banking corporation (the "Bank"), operates a commercial bank with eight offices in Anne Arundel County Maryland. The Company had consolidated net income of $308,000 ($0.11 basic and diluted earnings per share) for the second quarter of 2016, compared to the second quarter of 2015 consolidated net income of $518,000 ($0.19 basic and diluted income per share), a 40.54% decrease. Year-to-date net income was $591,000 ($0.21 basic and diluted earnings per share), compared to the 2015 consolidated net income of $898,000 ($0.32 basic and diluted income per share), a **3**4.19% decrease. Despite net interest income after provision for credit losses being better in the current year and lowering total operating expenses, net income declined in the current year because non-interest income, mostly non-recurring, was much greater in the prior comparable period. In the year ending June 30, 2015, the Company realized $430,000 on the redemption of insurance policies (recorded as "other non-interest income" in the Company's Condensed Consolidated Statements of Income) and $469,000 on the sale of securities as compared to only $1,000 on the sale of securities in the current year. During the six months ended June 30, 2016**,** deposits increased by $4,104,000 and net loans decreased by $6,147,000.

Results Of Operations

Net Interest Income. The Company's consolidated net interest income prior to provision for credit losses for the three and six months ended June 30, 2016 was $2,733,000 and $5,532,000, respectively, compared to $2,767,000 and $5,627,000, respectively, for the same period in 2015, a decrease of $34,000 (1.23%) for the three months and a decrease of $95,000 (1.69%) for the six months.

Interest income for the second quarter decreased from $3,374,000 in 2015 to $3,269,000 in 2016, a 3.12% decrease. Interest income for the six months decreased from $6,854,000 in 2015 to $6,620,000 in 2016, a 3.42% decrease. The primary reason for the decline in interest income for the 2016 period when compared to the 2015 period was the decline in loan income as both yields and balances declined and a decrease in interest income for state and municipal securities, partially offset by an increase in U.S. Treasury and U.S. Government agency securities.

Interest expense for the second quarter decreased from $607,000 in 2015 to $536,000 in 2016, a 11.70% decrease. Interest expense for the six months decreased from $1,227,000 in 2015 to $1,088,000 in 2016, an 11.33% decrease. Interest expense for the second quarter and six months of year 2016 was lower than the comparable periods of 2015 primarily due to the decrease in our cost of funds.

Net interest margins on a tax equivalent basis for the three and six months ended June 30, 2016 was 3.07% and 3.14%, compared to 3.16% and 3.24% for the three and six months ended June 30, 2015. The decrease of the net interest margin for both periods was primarily due to declining yields on earning assets, as loan balances and yields have continued to decline and the balances of lower yielding investment securities have continued to increase within the portfolio.

Provision for Credit Losses. The Company made a provision for credit losses of $0 and $117,000 during the three and six month periods ending June 30, 2016, and $150,000 and $300,000 during the three and six month periods ending June 30, 2015. As of June 30, 2016, the allowance for credit losses equaled 80.61% of non-accrual and past due loans compared to 82.14% at December 31, 2015 and 60.80% at June 30, 2015. During the three and six month periods ended June 30, 2016, the Company recorded net charge-offs of $21,000 and $977,000, of which $685,000 was held as specific reserves at December 31, 2015, compared to net charge-offs of $68,000 and $144,00 during the corresponding period of the prior year. The majority of the $977,000 of charge-offs during the six months ending June 30, 2016 was to one relationship, pertaining to nine loans, which were performing loans (less than 90 days delinquent) and classified as “Substandard” as of December 31, 2015 with $685,000 of specific reserves. As of June 30, 2016, the loans included in this relationship were transferred to non-accrual status and down-graded to “Doubtful”.

Other Income. Other income decreased from $1,038,000 for the three month period ended June 30, 2015, to $317,000 for the corresponding 2016 period, a $721,000 (69.46%) decrease. Other income decreased from $1,576,000 for the six month period ended June 30, 2015, to $625,000 for the corresponding 2016 period, a $951,000 (60.35%) decrease. The decrease for the three and six month periods was primarily due to a decrease in gains on investment securities and a non-recurring gain on the redemption of insurance policies of $421,000 taken during the quarter in 2015.

Other Expenses. Other expenses decreased from $2,869,000 for the three month period ended June 30, 2015, to $2,698,000 for the corresponding 2016 period, a $171,000 (5.96%) decrease. The decrease for the three month period was due to a decrease in salaries and employee benefits. Other expenses decreased from $5,688,000 for the six month period ended June 30, 2015, to $5,371,000 for the corresponding 2016 period, a $317,000 (5.58%) decrease. The decrease for the six month period was due mainly to a decrease in salaries and employee benefits.

Income Taxes. During the three and six months ended June 30, 2016, the Company recorded an income tax expenses of $44,000 and $78,000, respectively, compared to income tax expense of $268,000 and $317,000 for the same respective periods in 2015. The Company’s effective tax rate for the three and six month periods in 2016 was 12.50% and 11.66%, respectively, compared to 34.10%and 26.09%, respectively, for the prior year period. The decreases in the effective tax rate for the three and six month periods were due to higher 2015 period income from gains on investment securities and non-recurring redemptions of insurance policies. Income tax expense for 2015 was further increased by the payment of an additional $66,000 to the Controller of Maryland for unentitled refunds from 2004 and 2007.

Comprehensive Income. In accordance with regulatory requirements, the Company reports comprehensive income in its financial statements. Comprehensive income consists of the Company’s net income, adjusted for unrealized gains and losses on the Bank’s investment portfolio of investment securities. For the second quarter of 2016, comprehensive income, net of tax, totaled $971,000, compared to the June 30, 2015 comprehensive loss, net of tax benefit, of $365,000. Year-to-date, comprehensive income, net of tax, totaled $1,686,000, compared to the June 30, 2015 comprehensive income, net of tax, of $181,000. The increase for the three and six month periods was due to an increase in the gains on the securities in the portfolio.

Financial Condition

General. The Company's assets increased to $395,794,000 at June 30, 2016 from $390,580,000 at December 31, 2015, primarily due to an increase in cash and cash equivalents and investment securities, offset by a decrease in loans. The Bank's net loans totaled $253,490,000 at June 30, 2016, compared to $259,637,000 at December 31, 2015**,** a decrease of $6,147,000 (2.37%), primarily attributable to a decrease in refinance loans, purchase money mortgage, commercial mortgages and smaller decreases in various other loan categories. These decreases were partially offset by increases in multifamily mortgages and SBA loans.

The Company's total investment securities portfolio (investment securities available for sale) totaled $102,681,000 at June 30, 2016, a $3,891,000 (3.94%) increase from $98,790,000 at December 31, 2015. The Bank's cash and due from banks (cash due from banks, interest-bearing deposits in other financial institutions, and federal funds sold), as of June 30, 2016, totaled **$**20,504,000, an increase of $8,133,000 (65.75%) from the December 31, 2015 total of $12,371,000. The increase in investment securities was funded by the decrease in loans and an increase in deposits.

Deposits as of June 30, 2016 totaled $339,295,000, which is an increase of $4,104,000 (1.23%) from $335,191,000 at December 31, 2015. Demand deposits as of June 30, 2016, totaled $97,197,000, which is an increase of $3,162,000 (3.86%) from $93,585,000 at December 31, 2015. NOW accounts as of June 30, 2016, totaled $29,629,000, which is an increase of $2,127,000 (7.73%) from $27,502,000 at December 31, 2015. Money market accounts as of June 30, 2016, totaled $19,348,000, which is an increase of $268,000 (1.40%), from $19,080,000 at December 31, 2015. Savings deposits as of June 30, 2016, totaled $81,429,000, which is an increase of $3,321,000 (4.25%) from $78,108,000 at December 31, 2015. Certificates of deposit over $100,000 totaled $33,769,000 on June 30, 2016, which is a decrease of $470,000 (1.37%) from $34,239,000 at December 31, 2015. Other time deposits (made up of certificates of deposit less than $100,000 and individual retirement accounts) totaled $77,923,000 on June 30, 2016, which is a $4,755,000 (5.75%) decrease from the $82,678,000 total at December 31, 2015.

Loans. The following tables set forth the amount of the Bank's loans by categories at the dates indicated.

	June 30, 2016		December 31, 2015	
(Dollars in Thousands)	$	%	$	%
Mortgage:				
Residential	$111,709	43.50 %	$116,027	43.97 %
Commercial	61,551	23.97	62,469	23.68
Construction and land development	4,822	1.88	5,519	2.09
Consumer:				
Installment	13,710	5.34	14,577	5.52
Personal unsecured lines	99	0.04	119	0.05
Indirect automobile	60,409	23.52	60,607	22.97
Commercial	4,509	1.76	4,540	1.72
Gross loan	256,809	100.00%	263,858	100.00%
Unearned income on loans	(1,028)		(1,071)	
Gross loans net of unearned income	255,781		262,787	
Allowance for credit losses	(2,291)		(3,150)	
Loans, net	$253,490		$259,637	

The Bank's net loans totaled $253,490,000 at June 30, 2016, compared to $259,637,000 at December 31, 2015**,** a decrease of $6,147,000 (2.37%). Residential real estate loans declined from $116.0 million to $111.7 million ($4.3 million or 3.7%) primarily due to loans refinancing to lower their current interest rates. Commercial real estate loans declined from $62.5 million to $61.6 million ($918,000 or 1.5%) due to more loans paying off than being originated.

Other Real Estate Owned. At June 30, 2016, the Company had $200,600 in real estate acquired in partial or total satisfaction of debt, compared to $74,400 at December 31, 2015. All such properties are recorded at the lower of cost or fair value (net realizable value) at the date acquired and carried on the balance sheet as other real estate owned. Losses arising at the date of acquisition are charged against the allowance for credit losses. Subsequent write-downs that may be required and expense of operation are included in non-interest expense. Gains and losses realized from the sale of other real estate owned are included in non-interest income or expense.

Allowance For Credit Losses. The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely. The allowance, based on evaluations of the collectability of loans and prior loan loss experience, is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible. The evaluations are performed for each class of loans and take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, value of collateral securing the loans and current economic conditions and trends that may affect the

borrowers' ability to pay. For example, delinquencies in unsecured loans and indirect automobile installment loans will be reserved for at significantly higher ratios than loans secured by real estate. Based on that analysis, the Bank deems its allowance for credit losses in proportion to the total non-accrual loans and past due loans to be sufficient.

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Transactions in the allowance for credit losses for the three months ended June 30, 2016 and the year ended December 31, 2015 were as follows:

June 30, 2016 (Dollars in Thousands)	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Unallocated	Total
Balance, beginning of year	$ 305	$ 262	$ 804	$ 1,631	$ 148	$ 3,150
Provision for credit losses	(11)	(47)	83	152	(60)	117
Recoveries	-	-	208	34	-	242
Loans charged off	-	-	(372)	(846)	-	(1,218)
Balance, end of quarter	$ 294	$ 215	$ 723	$ 971	$ 88	$ 2,291
Individually evaluated for impairment:						
Balance in allowance	$ 235	$ 92	$ 56	$ 12	$ -	$ 395
Related loan balance	235	292	136	49	-	712
Collectively evaluated for impairment:						
Balance in allowance	$ 59	$ 123	$ 667	$ 959	$ 88	$ 1,896
Related loan balance	4,274	62,465	77,627	111,732	-	256,098

December 31, 2015 (Dollars in Thousands)	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Unallocated	Total
Balance, beginning of year	$ 386	$ 335	$ 1,281	$ 1,170	$ (54)	$ 3,118
Provision for credit losses	(79)	(24)	297	1,299	202	1,695
Recoveries	1	14	487	10	-	512
Loans charged off	(3)	(63)	(1,261)	(848)	-	(2,175)
Balance, end of year	$ 305	$ 262	$ 804	$ 1,631	$ 148	$ 3,150
Individually evaluated for impairment:						
Balance in allowance	$ 241	$ 101	$ 65	$ 697	$ -	$ 1,104
Related loan balance	241	1,143	951	2,792	-	5,127
Collectively evaluated for impairment:						
Balance in allowance	$ 65	$ 161	$ 739	$ 934	$ 148	$ 2,047
Related loan balance	4,299	63,128	74,352	116,952	-	258,731

As of June 30, 2016 and December 31, 2015, the allowance for loan losses included an unallocated portion in the amount of $88,000 and $148,000, respectively. The unallocated portion of the allowance for credit losses is available to absorb further losses that may not necessarily be accounted for in the current model. Management believes the allowance for credit losses is at an appropriate level to absorb inherent probable losses in the portfolio.

	At June 30, 2016	At March 31, 2015
	(Dollars in Thousands)	
Average loans	$ 255,636	$ 271,376
Net charge-offs to average loans (annualized)	0.76 %	0.12 %

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During 2016, loans to 48 borrowers and related entities totaling approximately $1,218,000 were determined to be uncollectible and were charged off.

Reserve for Unfunded Commitments. As of June 30, 2016, the Bank had outstanding commitments totaling $25,358,000. These outstanding commitments consisted of letters of credit, undrawn lines of credit, and other loan commitments. The following table shows the Bank's reserve for unfunded commitments arising from these transactions:

	Six Months Ended June 30,	
	2016	2015
	(Dollars in Thousands)	
Beginning balance	$ 12	$ 200
Reduction of unfunded reserve	(6)	-
Provisions charged to operations	-	-
Ending balance	$ 6	$ 200

Contractual Obligations and Commitments. No material changes, outside the normal course of business, have been made during the second quarter of 2016.

Market Risk and Interest Rate Sensitivity

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates or equity pricing. The Company's principal market risk is interest rate risk that arises from its lending, investing and deposit taking activities. The Company's profitability is dependent on the Bank's net interest income. Interest rate risk can significantly affect net interest income to the degree that interest bearing liabilities mature or reprice at different intervals than interest earning assets. The Bank's Asset/Liability and Risk Management Committee oversees the management of interest rate risk. The primary purpose of the committee is to manage the exposure of net interest margins to unexpected changes due to interest rate fluctuations. The Company does not utilize derivative financial or commodity instruments or hedging strategies in its management of interest rate risk. The primary tool used by the committee to monitor interest rate risk is a "gap" report which measures the dollar difference between the amount of interest bearing assets and interest bearing liabilities subject to repricing within a given time period. These efforts affect the loan pricing and deposit rate policies of the Company as well as the asset mix, volume guidelines, and liquidity and capital planning.

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The following table sets forth the Company's interest-rate sensitivity at June 30, 2016.

	0-3 Months	Over 3 to 12 Months	Over 1 Through 5 Years	Over 5 Years	Total
	(Dollars in Thousands)				
Assets:					
Cash and due from banks	$-	$-	$-	$-	$6,481
Federal funds and overnight deposits	14,023	-	-	-	14,023
Securities	-	910	3,040	98,731	102,681
Loans	15,051	12,027	67,829	158,583	253,490
Fixed assets	-	-	-	-	3,292
Other assets	-	-	-	-	15,827
Total assets	$29,074	$12,937	$70,869	$257,314	$395,794
Liabilities:					
Demand deposit accounts	$-	$-	$-	$-	$97,197
NOW accounts	29,629	-	-	-	29,629
Money market deposit accounts	19,348	-	-	-	19,348
Savings accounts	81,089	340	-	-	81,429
IRA accounts	2,609	7,986	30,971	724	42,290
Certificates of deposit	7,910	19,375	41,985	132	69,402
Long-term borrowings	-	-	20,000	-	20,000
Other liabilities	-	-	-	-	1,103
Stockholders' equity:	-	-	-	-	35,396
Total liabilities and stockholders' equity	$140,585	$27,701	$92,956	$856	$395,794
GAP	$(111,511)	$(14,764)	$(22,087)	$256,458	
Cumulative GAP	$(111,511)	$(126,275)	$(148,362)	$108,096	
Cumulative GAP as a % of total assets	-28.17 %	-31.90 %	-37.48 %	27.31 %	

The foregoing analysis assumes that the Company's assets and liabilities move with rates at their earliest repricing opportunities based on final maturity. Mortgage backed securities are assumed to mature during the period in which they are estimated to prepay and it is assumed that loans and other securities are not called prior to maturity. Certificates of deposit and IRA accounts are presumed to reprice at maturity. NOW savings accounts are assumed to reprice at within three months although it is the Company's experience that such accounts may be less sensitive to changes in market rates.

In addition to GAP analysis, the Bank utilizes a simulation model to quantify the effect a hypothetical immediate plus or minus 200 basis point change in rates would have on net interest income and the economic value of equity. The model takes into consideration the effect of call features of investments as well as prepayments of loans in periods of declining rates. When actual changes in interest rates occur, the changes in interest earning assets and interest bearing liabilities may differ from the assumptions used in the model. As of June 30, 2016, the model produced the following sensitivity profile for net interest income and the economic value of equity.

	Immediate Change in Rates			
	-200 Basis Points	-100 Basis Points	+100 Basis Points	+200 Basis Points
% Change in Net Interest Income	-14.1%	-9.3%	6.4%	11.9%
% Change in Economic Value of Equity	-12.9%	-6.1%	10.6%	11.1%

Inasmuch as a large portion of the Company's deposits are non-interest bearing in an increased interest rate environment the Company's interest income increases at a proportionally greater rate than its total interest expense, thereby resulting in higher net interest income. Conversely, in a declining interest rate environment the decreases in the Company's interest income will be greater than decreases in its already low interest expense, thereby resulting in lower net interest income.. The Company's economic value of equity has a positive effect in an increased interest rate environment for shocks of 200 basis points and less because the increase in economic value of the Company's liabilities is greater than the decline in value of the Company's assets because the liabilities reprice much slower than our assets, especially considering our interest earning assets are much greater than our interest bearing liabilities. For an interest rate shock of 300 basis points the economic value of equity is neutral and rate shocks above 300 basis points produce results whereby the change in economic value of equity is worse. The Company's economic value of equity worsens in declining interest rate environments as the majority of our liabilities cannot continue to decrease much from their current levels thus the economic value of our liabilities and our assets both worsen in a declining rate environment.

Liquidity and Capital Resources

The Company currently has no business other than that of the Bank and does not currently have any material funding commitments. The Company's principal sources of liquidity are cash on hand and dividends received from the Bank. The Bank is subject to various regulatory restrictions on the payment of dividends.

The Bank's principal sources of funds for investments and operations are net income, deposits from its primary market area, principal and interest payments on loans, interest received on investment securities and proceeds from maturing investment securities. Its principal funding commitments are for the origination or purchase of loans and the payment of maturing deposits. Deposits are considered a primary source of funds supporting the Bank's lending and investment activities.

The Bank's most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from financial institutions, federal funds sold, certificates of deposit with other financial institutions that have an original maturity of three months or less and money market mutual funds. The levels of such assets are dependent on the Bank's operating, financing and investment activities at any given time. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows. The Bank's cash and cash equivalents (cash due from banks, interest-bearing deposits in other financial institutions, and federal funds sold), as of June 30, 2016, totaled $20,504,000, an increase of $8,133,000 (65.75%) from the December 31, 2015 total of $12,371,000.

As of June 30, 2016, the Bank was permitted to draw on a $68,452,00**0** line of credit from the FHLB of Atlanta. Borrowings under the line are secured by a floating lien on the Bank's residential mortgage loans. At June 30, 2016, there was nothing outstanding in short-term borrowings from FHLB. As of June 30, 2016, there were $20.0 million in

long-term convertible advances outstanding with various monthly and quarterly call features and with final maturities through August 2018. In addition, the Bank has three unsecured federal funds lines of credit in the amount of $3.0 million, $5.0 million and $8.0 million, of which nothing was outstanding as of June 30, 2016.

The Company's stockholders' equity increased $1,220,000 (3.57%) during the six months ended June 30, 2016, due mainly to an increase in accumulated other comprehensive income, net of taxes. The Company's accumulated other comprehensive income (loss), net of taxes increased by $1,094,000 (363.46%) from ($301,000) at December 31, 2015 to $793,000 at June 30, 2016, as a result of an increase in the market value of securities classified as available for sale. Retained earnings increased by $36,000 (0.17%) as the result of the Company's net income for the six months, offset by dividends.

The Federal Reserve Board and the FDIC have established guidelines with respect to the maintenance of appropriate levels of capital by bank holding companies and state non-member banks, respectively. The regulations impose two sets of capital adequacy requirements: minimum leverage rules, which require bank holding companies and banks to maintain a specified minimum ratio of capital to total assets, and risk-based capital rules, which require the maintenance of specified minimum ratios of capital to "risk-weighted" assets. At June 30, 2016, the Bank was in full compliance with these guidelines with a Tier 1 leverage ratio of 8.5696%, a Tier 1 risk-based capital ratio of 14.0518%, a common equity Tier 1 risk-based capital ratio of 14.0518%, and a total risk-based capital ratio of 15.0033%.

Current Outlook

The Bank's results of operations continue to be affected by the low interest rate environment and slow recovering economy. As a result, net interest income for the periods ended June 30, 2016 is lower than net interest income for the comparable 2015 period. Future results of operation depend greatly on the overall economy, actions of the Federal Reserve Board and other factors beyond the Bank's control, and the Bank cannot accurately forecast these factors.

Critical Accounting Policies and Estimates

The Company's accounting policies are more fully described in its Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations. As discussed there, the preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Since future events and their effects cannot be determined with absolute certainty, the determination of estimates requires the exercise of judgment. Management has used the best information available to make the estimations necessary to value the related assets and liabilities based on historical experience and on various assumptions which are believed to be reasonable under the circumstances. Actual results could differ from those estimates, and such differences may be material to the financial statements. The Company reevaluates these variables as facts and circumstances change. Historically, actual results have not differed significantly from the Company's estimates. The following is a summary of the more judgmental accounting estimates and principles involved in the preparation of the Company's financial statements, including the identification of the variables most important in the estimation process:

Allowance for Credit Losses. The Bank's allowance for credit losses is determined based upon estimates that can and do change when the actual events occur, including historical losses as an indicator of future losses, fair market value of collateral, and various general or industry or geographic specific economic events. The use of these estimates and values is inherently subjective and the actual losses could be greater or less than the estimates. For further information regarding the Bank's allowance for credit losses, see "Allowance for Credit Losses", above.

Accrued Taxes. Management estimates income tax expense based on the amount it expects to owe various tax authorities. Accrued taxes represent the net estimated amount due or to be received from taxing authorities. In estimating accrued taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial and regulatory guidance in the context of the Company's tax position.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to management in a timely manner. The Company's Chief Executive Officer and Chief Financial Officer have evaluated this system of disclosure controls and procedures as of the end of the period covered by this quarterly report, and have concluded that the system is effective. There have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are

reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit No.	
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Registrant's Form 8-A filed December 27, 1999, File No. 0-24047)
3.2	Articles of Amendment, dated October 8, 2003 (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2003, File No. 0-24047)
3.3	Articles Supplementary, dated November 16, 1999 (incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed December 8, 1999, File No. 0-24047)
3.4	By-Laws (incorporated by reference to Exhibit 3.4 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2003, File No. 0-24047)
10.1	Glen Burnie Bancorp Director Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No.33-62280)
10.2	The Bank of Glen Burnie Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No. 333-46943)
10.3	Amended and Restated Change-in-Control Severance Plan (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2001, File No. 0-24047)
31.1	Rule 15d-14(a) Certification of Chief Executive Officer
31.2	Rule 15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certifications
101	Interactive data files providing financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets, June 30, 2016 and December 31, 2015, (ii) Condensed Consolidated Statements of Income for the three and six months ended June 30, 2016 and 2015, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015, and (v) Notes to Unaudited Condensed Consolidated Financial Statements

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GLEN BURNIE BANCORP
(Registrant)

Date: August 10, 2016 By: /s/ John D. Long
John D. Long
President, Chief Executive Officer

By: /s/ John Wright
John Wright
Chief Financial Officer