SPINNAKER EXPLORATION CO Form 10-Q November 12, 2003 **Table of Contents**

SECURIT	TIES AND EXCHANGE COMMISSION
	Washington, D.C. 20549
	Form 10-Q
X QUARTERLY REPORT I EXCHANGE ACT OF 193	PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES 34
For the quarterly period ended Septem	aber 30, 2003.
TRANSITION REPORT I EXCHANGE ACT OF 193	PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES 34
For the transition period from	to
	Commission file number 001-16009
SPINNAI	KER EXPLORATION COMPANY
	(Exact name of registrant as specified in its charter)
Delaware	76-0560101

Table of Contents 1

(I.R.S. Employer

Identification No.)

77002

(Zip Code)

(State or other jurisdiction of

incorporation or organization)

1200 Smith Street, Suite 800

Houston, Texas (Address of principal executive offices)

Edgar Filing: SPINNAKER EXPLORATION CO - Form 10-Q

(713) 759-1770

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No "

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No "

The number of shares outstanding of the registrant s common stock, par value \$0.01 per share, on November 12, 2003 was 33,273,061.

SPINNAKER EXPLORATION COMPANY

Form 10-Q

For the Three and Nine Months Ended September 30, 2003

		Page
PART I - FINANCIAL INFO	RMATION	
Item 1.	Financial Statements	
Consolidated Balance Sheets September 30, 2003 (unaudited) and December 31, 2002	3
Consolidated Statements of Op Three and Nine Months Ended	erations September 30, 2003 and 2002 (unaudited)	4
Consolidated Statements of Car Nine Months Ended September	sh Flows 30, 2003 and 2002 (unaudited)	5
Notes to Interim Consolidated	Financial Statements (unaudited)	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	o f
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	20
Item 4.	Controls and Procedures	22
PART II - OTHER INFORM	ATION	
Item 6.	Exhibits and Reports on Form 8-K	22
<u>SIGNATURES</u>		23

2

SPINNAKER EXPLORATION COMPANY

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	Sej	As of otember 30, 2003	De	As of exember 31, 2002
ASSETS	α	J naudited)		
CURRENT ASSETS:		Ź		
Cash and cash equivalents	\$	10,645	\$	32,543
Accounts receivable, net of allowance for doubtful accounts of \$3,232 at September 30, 2003 and				
December 31, 2002, respectively		26,700		37,572
Other		4,348		11,438
Total current assets		41,693		81,553
		,		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
PROPERTY AND EQUIPMENT: Oil and gas, on the basis of full-cost accounting:				
Proved properties		1,104,228		879,840
Unproved properties and properties under development, not being amortized		146,492		141,326
Other		16,550		14,461
Outer		10,330		11,101
		1,267,270		1,035,627
Less Accumulated depreciation, depletion and amortization		(372,679)		(274,773)
,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	_			
Total property and equipment		894,591		760,854
OTHER ASSETS		83	_	308
Total assets	\$	936,367	\$	842,715
			_	
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:	_		_	
Accounts payable	\$	26,721	\$	29,453
Accrued liabilities and other		44,062		38,542
Hedging liabilities		5,514		19,917
Asset retirement obligations, current portion		850		
Total current liabilities		77,147		87,912
LONG-TERM DEBT		18,000		
ASSET RETIREMENT OBLIGATIONS		29,638		
DEFERRED INCOME TAXES		78,235		61,826
COMMITMENTS AND CONTINGENCIES				
EQUITY:				
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively				
Common stock, \$0.01 par value; 50,000,000 shares authorized; 33,250,276 shares issued and				
33,238,752 shares outstanding at September 30, 2003 and 33,184,463 shares issued and 33,171,759				
shares outstanding at December 31, 2002		333		332

Edgar Filing: SPINNAKER EXPLORATION CO - Form 10-Q

Additional paid-in capital	597,087	596,087
Retained earnings	139,485	109,337
Less: Treasury stock, at cost, 11,524 shares at September 30, 2003 and 12,704 shares at December 31,		
2002	(29)	(32)
Accumulated other comprehensive loss	(3,529)	(12,747)
Total equity	733,347	692,977
Total liabilities and equity	\$ 936,367	\$ 842,715

The accompanying notes are an integral part of these consolidated financial statements.

SPINNAKER EXPLORATION COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

REVENUES \$50,138 \$51,588 \$177,70 \$121,322		Three Months Ended September 30,		Nine Months Ended September 30,		
REVENUES \$50,138 \$51,588 \$177,740 \$121,322 EXPENSES:						
EXPENSES: Lease operating expenses 7,322 5,237 18,023 12,380 10,0000 10,000000 10,000000 10,000000 10,000000 10,000000 10,000000 10,0000000 10,00000000 10,0000000000		2003	2002	2003	2002	
Lease operating expenses	REVENUES	\$ 50,138	\$ 51,588	\$ 177,740	\$ 121,322	
Depreciation, depletion and amortization natural gas and oil properties 30,399 31,929 94,476 70,537 Depreciation and amortization other 333 3246 966 629 Accretion expense 529 1,593 Gain on settlement of asset retirement obligations 900 (261) General and administrative 3,925 2,976 9,965 8,387 Charges related to Enron bankruptcy 128 128 Total expenses 42,418 40,516 124,762 92,061 INCOME FROM OPERATIONS 7,720 11,042 52,978 29,261 INCOME FROM OPERATIONS 7,720 11,042 52,978 29,261 INCOME GENERNSE: 149 11,042 52,978 29,261 Interest income 49 272 176 936 Interest expense, net (234) (148) (536) (597) Total other income (expense) (185) 124 (360) 339 INCOME BEFORE INCOME TAXES 7,535 11,166 52,618 29,600 Income tax expense 2,7713 4,020 18,943 10,656 INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE 4,822 7,146 33,675 18,944 Cumulative effect of change in accounting principle (Note 3) (3,527) NET INCOME 3,4822 5,7,146 5,0,148 5,944 BASIC INCOME PER COMMON SHARE: 5,0,15 5,0,22 5,0,91 5,0,61 Unulative effect of change in accounting principle 5,0,15 5,0,22 5,0,91 5,0,61 DILUTED INCOME PER COMMON SHARE: 5,0,15 5,0,22 5,0,91 5,0,50 DILUTED INCOME PER COMMON SHARE: 5,0,15 5,0,22 5,0,91 5,0,50 DILUTED INCOME PER COMMON SHARE: 5,0,15 5,0,22 5,0,91 5,0,50 DILUTED INCOME PER COMMON SHARE: 5,0,15 5,0,22 5,0,91 5,0,50 DILUTED INCOME PER COMMON SHARE: 5,0,15 5,0,21 5,0,99 5,0,50	EXPENSES:		,	,		
Depreciation and amortization other 333 246 966 629 Accretion expense 529 1,593 1,593 2,976 9,965 8,387 General and administrative 3,925 2,976 9,965 8,387 Charges related to Enron bankruptcy 128 128 128 Total expenses 42,418 40,516 124,762 92,061 INCOME FROM OPERATIONS 7,720 11,042 52,978 29,261 TOTHER INCOME (EXPENSE): 9 272 176 936 Interest expense, net (234) (148) (536) (597) Total other income (expense) (185) 124 (360) 339 INCOME BEFORE INCOME TAXES 7,535 11,166 52,618 29,600 Income tax expense 2,713 4,020 18,943 10,656 INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE 4,822 7,146 33,675 18,944 Cumulative effect of change in accounting principle (Note 3) 3,527 3,536 18,944	Lease operating expenses	7,322	5,237	18,023	12,380	
Secretar	Depreciation, depletion and amortization natural gas and oil properties	30,399	31,929	94,476	70,537	
Gain on settlement of asset retirement obligations (90) (261) General and administrative 3,925 2,976 9,965 8,387 Charges related to Enron bankruptcy 128 128 128 Total expenses 42,418 40,516 124,762 92,061 INCOME FROM OPERATIONS 7,720 11,042 52,978 29,261 OTHER INCOME (EXPENSE): 849 272 176 936 Interest expense, net (234) (148) (536) (597) Total other income (expense) (185) 124 (360) 339 INCOME BEFORE INCOME TAXES 7,535 11,166 52,618 29,600 Income tax expense 2,713 4,020 18,943 10,656 INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE 4,822 7,146 33,675 18,944 Cumulative effect of change in accounting principle (Note 3) (3,527) (3,527) 10,22 8,04 BASIC INCOME PER COMMON SHARE: 8,015 9,022 9,01 9,01	Depreciation and amortization other	333	246	966	629	
General and administrative Charges related to Enron bankruptcy 3,925 2,976 9,965 8,387 Charges related to Enron bankruptcy 128 128 128 Total expenses 42,418 40,516 124,762 92,061 INCOME FROM OPERATIONS OTHER INCOME (EXPENSE): Interest income 49 272 176 936 Interest expense, net (234) (148) (536) (597) Total other income (expense) (185) 124 (360) 339 INCOME BEFORE INCOME TAXES 7,535 11,166 52,618 29,600 Income tax expense 2,713 4,020 18,943 10,656 INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE 4,822 7,146 33,675 18,944 Cumulative effect of change in accounting principle (Note 3) (3,527) (3,527) NET INCOME \$ 4,822 \$ 7,146 \$ 30,148 \$ 18,944 BASIC INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.15 \$ 0.22 \$ 0.61 DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in a		529		1,593		
Charges related to Enron bankruptcy	Gain on settlement of asset retirement obligations	(90)		(261)		
Total expenses		3,925		9,965		
INCOME FROM OPERATIONS 7,720 11,042 52,978 29,261 OTHER INCOME (EXPENSE):	Charges related to Enron bankruptcy		128		128	
INCOME FROM OPERATIONS 7,720 11,042 52,978 29,261 OTHER INCOME (EXPENSE):	m - 1	42.410	40.516	124762	02.0(1	
OTHER INCOME (EXPENSE): 49 272 176 936 Interest income (234) (148) (536) (597) Total other income (expense) (185) 124 (360) 339 INCOME BEFORE INCOME TAXES 7,535 11,166 52,618 29,600 Income tax expense 2,713 4,020 18,943 10,656 INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE 4,822 7,146 33,675 18,944 Cumulative effect of change in accounting principle (Note 3) (3,527) (3,527) NET INCOME \$ 4,822 \$ 7,146 \$ 30,148 \$ 18,944 BASIC INCOME PER COMMON SHARE: \$ 0.15 \$ 0.22 \$ 1.02 \$ 0.61 Cumulative effect of change in accounting principle \$ 0.15 \$ 0.22 \$ 0.61 NET INCOME PER COMMON SHARE \$ 0.15 \$ 0.22 \$ 0.91 \$ 0.61 DILUTED INCOME PER COMMON SHARE: \$ 0.15 \$ 0.21 \$ 0.99 \$ 0.59	Total expenses	42,418	40,516	124,762	92,061	
OTHER INCOME (EXPENSE): 49 272 176 936 Interest income (234) (148) (536) (597) Total other income (expense) (185) 124 (360) 339 INCOME BEFORE INCOME TAXES 7,535 11,166 52,618 29,600 Income tax expense 2,713 4,020 18,943 10,656 INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE 4,822 7,146 33,675 18,944 Cumulative effect of change in accounting principle (Note 3) (3,527) (3,527) NET INCOME \$ 4,822 \$ 7,146 \$ 30,148 \$ 18,944 BASIC INCOME PER COMMON SHARE: \$ 0.15 \$ 0.22 \$ 1.02 \$ 0.61 Cumulative effect of change in accounting principle \$ 0.15 \$ 0.22 \$ 0.61 NET INCOME PER COMMON SHARE \$ 0.15 \$ 0.22 \$ 0.91 \$ 0.61 DILUTED INCOME PER COMMON SHARE: \$ 0.15 \$ 0.21 \$ 0.99 \$ 0.59	INCOME FROM OPERATIONS	7 720	11 042	52.978	29 261	
Interest income 49 272 176 936 Interest expense, net (234) (148) (536) (597) Total other income (expense) (185) 124 (360) 339 INCOME BEFORE INCOME TAXES 7,535 11,166 52,618 29,600 Income tax expense 2,713 4,020 18,943 10,656 INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE 4,822 7,146 33,675 18,944 Cumulative effect of change in accounting principle (Note 3) (3,527) NET INCOME \$4,822 \$7,146 \$30,148 \$18,944 BASIC INCOME PER COMMON SHARE: (0,11) Income before cumulative effect of change in accounting principle \$0.15 \$0.22 \$1.02 \$0.61 Cumulative effect of change in accounting principle \$0.15 \$0.22 \$0.91 \$0.61 DILUTED INCOME PER COMMON SHARE: (0,111) DILUTED INCOME PER COMMON SHARE: (0,111) DILUTED INCOME PER COMMON SHARE: (0,111) Income before cumulative effect of change in accounting principle \$0.15 \$0.22 \$0.91 \$0.61 DILUTED INCOME PER COMMON SHARE: (0,111) DILUTED INCOME PER COMMON SHARE: (0,112) (0,113) DILUTED INCOME PER COMMON SHARE: (0,114) (0,114) DILUTED INCOME PER COMMON SHARE: (0,114) (0,114) (0,114) DILUTED INCOME PER COMMON SHARE: (0,114)		7,720	11,0 .2	02,770	25,201	
Interest expense, net (234) (148) (536) (597) Total other income (expense) (185) 124 (360) 339 INCOME BEFORE INCOME TAXES		49	272	176	936	
INCOME BEFORE INCOME TAXES 7,535 11,166 52,618 29,600 10,000		(234)	(148)	(536)	(597)	
INCOME BEFORE INCOME TAXES 7,535 11,166 52,618 29,600 10,000	Total other income (avenue)	(105)	124	(260)	220	
Income tax expense 2,713 4,020 18,943 10,656 INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE 4,822 7,146 33,675 18,944 Cumulative effect of change in accounting principle (Note 3) (3,527) NET INCOME \$ 4,822 \$ 7,146 \$ 30,148 \$ 18,944 BASIC INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.15 \$ 0.22 \$ 1.02 \$ 0.61 Cumulative effect of change in accounting principle (0.11) NET INCOME PER COMMON SHARE S 0.15 \$ 0.22 \$ 0.91 \$ 0.61 DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.14 \$ 0.21 \$ 0.99 \$ 0.59	Total other income (expense)	(183)	124	(300)	339	
Income tax expense 2,713 4,020 18,943 10,656 INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE 4,822 7,146 33,675 18,944 Cumulative effect of change in accounting principle (Note 3) (3,527) NET INCOME \$4,822 \$7,146 \$30,148 \$18,944 BASIC INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$0.15 \$0.22 \$1.02 \$0.61 Cumulative effect of change in accounting principle \$0.15 \$0.22 \$0.91 \$0.61 DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$0.15 \$0.22 \$0.91 \$0.61 DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$0.14 \$0.21 \$0.99 \$0.59	INCOME BEFORE INCOME TAXES	7,535	11,166	52,618	29,600	
PRINCIPLE Cumulative effect of change in accounting principle (Note 3) NET INCOME BASIC INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle Cumulative effect of change in accounting principle NET INCOME PER COMMON SHARE: Income before Cumulative effect of change in accounting principle NET INCOME PER COMMON SHARE Solid \$0.15 \$0.22 \$0.91 \$0.61 DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$0.15 \$0.22 \$0.91 \$0.61 DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$0.14 \$0.21 \$0.99 \$0.59	Income tax expense		4,020		10,656	
PRINCIPLE Cumulative effect of change in accounting principle (Note 3) NET INCOME BASIC INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle Cumulative effect of change in accounting principle NET INCOME PER COMMON SHARE: Income before Cumulative effect of change in accounting principle NET INCOME PER COMMON SHARE Solid \$0.15 \$0.22 \$0.91 \$0.61 DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$0.15 \$0.22 \$0.91 \$0.61 DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$0.14 \$0.21 \$0.99 \$0.59	INCOME DEFODE CHMILLATIVE FEFECT OF CHANCE IN A CCOUNTING					
Cumulative effect of change in accounting principle (Note 3) NET INCOME \$ 4,822 \$ 7,146 \$ 30,148 \$ 18,944 BASIC INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.15 \$ 0.22 \$ 1.02 \$ 0.61 Cumulative effect of change in accounting principle NET INCOME PER COMMON SHARE \$ 0.15 \$ 0.22 \$ 0.91 \$ 0.61 DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.14 \$ 0.21 \$ 0.99 \$ 0.59		4 922	7 146	22 675	19.044	
NET INCOME \$ 4,822 \$ 7,146 \$ 30,148 \$ 18,944 BASIC INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle Cumulative effect of change in accounting principle NET INCOME PER COMMON SHARE DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.15 \$ 0.22 \$ 0.91 \$ 0.61 DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.14 \$ 0.21 \$ 0.99 \$ 0.59		4,622	7,140		18,944	
BASIC INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.15 \$ 0.22 \$ 1.02 \$ 0.61 Cumulative effect of change in accounting principle (0.11) NET INCOME PER COMMON SHARE \$ 0.15 \$ 0.22 \$ 0.91 \$ 0.61 DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.14 \$ 0.21 \$ 0.99 \$ 0.59	Cumulative effect of change in accounting principle (1906 3)			(3,321)		
Income before cumulative effect of change in accounting principle Cumulative effect of change in accounting principle NET INCOME PER COMMON SHARE DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.15 \$ 0.22 \$ 0.91 \$ 0.61 \$ 0.61	NET INCOME	\$ 4,822	\$ 7,146	\$ 30,148	\$ 18,944	
Income before cumulative effect of change in accounting principle Cumulative effect of change in accounting principle NET INCOME PER COMMON SHARE DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.15 \$ 0.22 \$ 0.91 \$ 0.61 \$ 0.61						
Cumulative effect of change in accounting principle NET INCOME PER COMMON SHARE \$ 0.15 \$ 0.22 \$ 0.91 \$ 0.61 DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.14 \$ 0.21 \$ 0.99 \$ 0.59	BASIC INCOME PER COMMON SHARE:					
NET INCOME PER COMMON SHARE \$ 0.15 \$ 0.22 \$ 0.91 \$ 0.61 DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.14 \$ 0.21 \$ 0.99 \$ 0.59	Income before cumulative effect of change in accounting principle	\$ 0.15	\$ 0.22	\$ 1.02	\$ 0.61	
DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.14 \$ 0.21 \$ 0.99 \$ 0.59	Cumulative effect of change in accounting principle			(0.11)		
DILUTED INCOME PER COMMON SHARE: Income before cumulative effect of change in accounting principle \$ 0.14 \$ 0.21 \$ 0.99 \$ 0.59	NET INCOME DED COMMON GUADE	¢ 0.15	¢ 0.22	¢ 0.01	¢ 0.61	
Income before cumulative effect of change in accounting principle \$ 0.14 \$ 0.21 \$ 0.99 \$ 0.59	NET INCOME PER COMMON SHARE	\$ 0.15	\$ 0.22	\$ 0.91	\$ 0.61	
Income before cumulative effect of change in accounting principle \$ 0.14 \$ 0.21 \$ 0.99 \$ 0.59	DILUTED INCOME PER COMMON SHARE:					
		\$ 0.14	\$ 0.21	\$ 0.99	\$ 0.59	
				(0.10)		

Edgar Filing: SPINNAKER EXPLORATION CO - Form 10-Q

NET INCOME PER COMMON SHARE	\$ 0.14	\$ 0.21	\$ 0.89	\$ 0.59
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	33,226	33,160	33,208	31,198
Diluted	33,865	34,038	33,806	32,118

The accompanying notes are an integral part of these consolidated financial statements.

SPINNAKER EXPLORATION COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

Nine Months

	Ended September 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 30,148	\$ 18,944
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	95,442	71,166
Accretion expense	1,593	
Gain on settlement of asset retirement obligations	(261)	
Deferred income tax expense	18,683	10,956
Cumulative effect of change in accounting principle	3,527	