

SPINNAKER EXPLORATION CO

Form 10-Q

May 07, 2004

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

- x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2004.**
- .. **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.**

Commission file number 001-16009

SPINNAKER EXPLORATION COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

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

1200 Smith Street, Suite 800

Houston, Texas
(Address of principal executive offices)

77002
(Zip Code)

(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 No

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

The number of shares outstanding of the registrant's common stock, par value \$0.01 per share, on May 6, 2004 was 33,711,000.

Table of Contents

SPINNAKER EXPLORATION COMPANY

Form 10-Q

For the Three Months Ended March 31, 2004

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets</u> <u>March 31, 2004 (unaudited) and December 31, 2003</u>	3
<u>Consolidated Statements of Operations</u> <u>Three Months Ended March 31, 2004 and 2003 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows</u> <u>Three Months Ended March 31, 2004 and 2003 (unaudited)</u>	5
<u>Notes to Interim Consolidated Financial Statements (unaudited)</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	20
<u>Item 4. Controls and Procedures</u>	22
PART II OTHER INFORMATION	
<u>Item 6. Exhibits and Reports on Form 8-K</u>	23
<u>SIGNATURES</u>	24

Table of Contents**SPINNAKER EXPLORATION COMPANY****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share data)

	As of March 31, 2004 <u>(Unaudited)</u>	As of December 31, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,532	\$ 15,315
Accounts receivable, net of allowance for doubtful accounts of \$3,232 as of March 31, 2004 and December 31, 2003, respectively	35,585	30,067
Hedging assets		203
Other	8,411	4,193
	<u>51,528</u>	<u>49,778</u>
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of full-cost accounting:		
Proved properties	1,272,164	1,175,443
Unproved properties and properties under development, not being amortized	128,557	151,214
Other	18,085	17,309
	<u>1,418,806</u>	<u>1,343,966</u>
Less Accumulated depreciation, depletion and amortization	(434,236)	(404,298)
	<u>984,570</u>	<u>939,668</u>
OTHER ASSETS	993	1,136
Total assets	\$ 1,037,091	\$ 990,582
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 25,620	\$ 18,723
Accrued liabilities and other	47,146	60,874
Hedging liabilities	8,130	2,903
Asset retirement obligations, current portion	2,392	446
	<u>83,288</u>	<u>82,946</u>
LONG-TERM DEBT	75,000	50,000
ASSET RETIREMENT OBLIGATIONS	31,582	32,548
DEFERRED INCOME TAXES	86,666	81,027
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding as of March 31, 2004 and December 31, 2003, respectively	337	334

Edgar Filing: SPINNAKER EXPLORATION CO - Form 10-Q

Common stock, \$0.01 par value; 50,000,000 shares authorized; 33,674,461 shares issued and 33,664,057 shares outstanding as of March 31, 2004 and 33,385,248 shares issued and 33,374,844 shares outstanding as of December 31, 2003

Additional paid-in capital	605,761	599,532
Retained earnings	159,686	145,949
Less: Treasury stock, at cost, 10,404 shares as of March 31, 2004 and December 31, 2003, respectively	(26)	(26)
Accumulated other comprehensive loss	(5,203)	(1,728)
	760,555	744,061
Total equity	760,555	744,061
Total liabilities and equity	\$ 1,037,091	\$ 990,582

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

Table of Contents

SPINNAKER EXPLORATION COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share data)

(Unaudited)

	Three Months	
	Ended March 31,	
	2004	2003
REVENUES	\$ 59,791	\$ 71,671
EXPENSES:		
Lease operating expenses	4,713	5,493
Depreciation, depletion and amortization oil and gas properties	29,001	32,835
Depreciation and amortization other	346	311
Accretion expense	716	495
Gain on settlement of asset retirement obligations	(126)	
General and administrative	3,498	3,039
Total expenses	38,148	42,173
INCOME FROM OPERATIONS	21,643	29,498
OTHER INCOME (EXPENSE):		
Interest income	32	65
Interest expense, net	(211)	(149)
Total other income (expense)	(179)	(84)
INCOME BEFORE INCOME TAXES	21,464	29,414
Income tax expense	7,727	10,589
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	13,737	18,825
Cumulative effect of change in accounting principle		(3,527)
NET INCOME	\$ 13,737	\$ 15,298
BASIC INCOME PER COMMON SHARE:		
Income before cumulative effect of change in accounting principle	\$ 0.41	\$ 0.57
Cumulative effect of change in accounting principle		(0.11)
NET INCOME PER COMMON SHARE	\$ 0.41	\$ 0.46
DILUTED INCOME PER COMMON SHARE:		
Income before cumulative effect of change in accounting principle	\$ 0.40	\$ 0.56
Cumulative effect of change in accounting principle		(0.11)

Edgar Filing: SPINNAKER EXPLORATION CO - Form 10-Q

NET INCOME PER COMMON SHARE	\$ 0.40	\$ 0.45
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	33,546	33,191
Diluted	34,636	33,684

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

Table of Contents

SPINNAKER EXPLORATION COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months	
	Ended March 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 13,737	\$ 15,298
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	29,347	33,146
Accretion expense	716	495
Gain on settlement of asset retirement obligations	(126)	
Deferred income tax expense	7,727	10,459
Cumulative effect of change in accounting principle		3,527
Other	403	83
Change in operating assets and liabilities:		
Accounts receivable	(5,518)	(8,430)
Accounts payable and accrued liabilities	3,562	(4,604)
Other assets	(2,381)	(452)
Net cash provided by operating activities	47,467	49,522
CASH FLOWS FROM INVESTING ACTIVITIES:		
Oil and gas properties	(83,476)	(59,872)
Proceeds from sale of oil and gas property and equipment		1,148
Purchases of other property and equipment	(776)	(401)
Net cash used in investing activities	(84,252)	(59,125)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	25,000	
Debt issue costs	(39)	
Proceeds from exercise of stock options	4,041	218
Net cash provided by financing activities	29,002	218
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,783)	(9,385)
CASH AND CASH EQUIVALENTS, beginning of year	15,315	32,543
CASH AND CASH EQUIVALENTS, end of period	\$ 7,532	\$ 23,158
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for interest, net of amounts capitalized	\$ 576	\$ 74
Cash paid for income taxes	\$	\$

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

Table of Contents**SPINNAKER EXPLORATION COMPANY****Notes to Interim Consolidated Financial Statements (Unaudited)****March 31, 2004****1. Basis of Presentation**

The accompanying unaudited consolidated financial statements of Spinnaker Exploration Company ("Spinnaker" or the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting only of normal and recurring adjustments) necessary to present a fair statement of the results for the periods included herein have been made and the disclosures contained herein are adequate to make the information presented not misleading. Interim period results are not necessarily indicative of results of operations or cash flows for a full year. These consolidated financial statements and the notes thereto should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

2. Summary of Significant Accounting Policies*Stock-Based Compensation*

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the fair value of the common stock, par value \$0.01 per share ("Common Stock"), at the date of the grant over the amount an employee must pay to acquire the Common Stock. In accordance with APB Opinion No. 25, compensation expense related to stock-based compensation was \$0 in each of the first quarter of 2004 and 2003. Had compensation cost for the Company's stock option compensation plans been determined based on the fair value at the grant dates for awards under these plans consistent with the method of SFAS No. 123, the Company's pro forma net income and pro forma net income per share of Common Stock would have been as follows (in thousands, except per share amounts):

	Three Months Ended	
	March 31,	
	2004	2003
	_____	_____
Net income, as reported	\$ 13,737	\$ 15,298
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects		
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,540)	(1,845)
	_____	_____
Pro forma net income	\$ 11,197	\$ 13,453

	<u> </u>	<u> </u>
Net income per common share:		
Basic, as reported	\$ 0.41	\$ 0.46
	<u> </u>	<u> </u>
Basic, pro forma	\$ 0.33	\$ 0.41
	<u> </u>	<u> </u>
Diluted, as reported	\$ 0.40	\$ 0.45
	<u> </u>	<u> </u>