

COMSTOCK RESOURCES INC  
Form 10-Q  
August 05, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarter Ended June 30, 2013

OR

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

Commission File No. 001-03262

COMSTOCK RESOURCES, INC.

(Exact name of registrant as specified in its charter)

NEVADA  
(State or other jurisdiction of

94-1667468  
(I.R.S. Employer

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incorporation or organization) Identification Number)  
5300 Town and Country Blvd., Suite 500, Frisco, Texas 75034

(Address of principal executive offices)

Telephone No.: (972) 668-8800

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated  Accelerated  Non-accelerated filer  Smaller reporting   
filer  filer  company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (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 \$0.50, as of August 2, 2013 was 48,315,612.

COMSTOCK RESOURCES, INC.

QUARTERLY REPORT

For the Quarter Ended June 30, 2013

INDEX

	Page
PART I. Financial Information	
Item 1. Financial Statements (Unaudited):	
<u>Consolidated Balance Sheets - June 30, 2013 and December 31, 2012</u>	4
<u>Consolidated Statements of Operations - Three Months and Six Months ended June 30, 2013 and 2012</u>	5
<u>Consolidated Statements of Comprehensive Income (Loss) - Three Months and Six Months ended June 30, 2013 and 2012</u>	6
<u>Consolidated Statement of Stockholders' Equity Six Months ended June 30, 2013</u>	7
<u>Consolidated Statements of Cash Flows - Six Months ended June 30, 2013 and 2012</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosure About Market Risk</u>	24
<u>Item 4. Controls and Procedures</u>	25
PART II. Other Information	
<u>Item 6. Exhibits</u>	

EX-31.1  
EX-31.2  
EX-32.1  
EX-32.2  
EX-101 INSTANCE DOCUMENT  
EX-101 SCHEMA DOCUMENT  
EX-101 CALCULATION LINKBASE DOCUMENT  
EX-101 LABELS LINKBASE DOCUMENT  
EX-101 PRESENTATION LINKBASE DOCUMENT  
EX-101 DEFINITION LINKBASE DOCUMENT

2

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2013	December 31, 2012
	(In thousands)	
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 263,737	\$ 4,471
Accounts Receivable:		
Oil and gas sales	39,057	35,734
Joint interest operations	23,045	5,608
Marketable Securities		12,312
Assets of Discontinued Operations		7,568
Derivative Financial Instruments	3,524	11,651
Other Current Assets	5,143	5,310
Total current assets	334,506	82,654
Property and Equipment:		
Unevaluated oil and gas properties	74,612	112,851
Oil and gas properties, successful efforts method	3,517,588	3,373,695
Other	18,440	18,628
Accumulated depreciation, depletion and amortization	(1,700,831)	(1,546,487)
Net property and equipment	1,909,809	1,958,687
Assets of Discontinued Operations		511,366
Other Assets	17,907	19,944
	\$ 2,262,222	\$ 2,572,651
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Accounts Payable	\$ 82,679	\$ 70,552
Deferred Income Taxes	1,233	5,340
Accrued Liabilities	38,214	37,001
Liabilities of Discontinued Operations		33,280
Total current liabilities	122,126	146,173
Long-term Debt	883,324	1,324,383
Deferred Income Taxes	209,529	149,901
Reserve for Future Abandonment Costs	16,660	16,387
Other Non-Current Liabilities	2,202	2,273
Total liabilities	1,233,841	1,639,117
Commitments and Contingencies		
Stockholders Equity:		
Common stock \$0.50 par, 75,000,000 shares authorized, 48,315,612 and 48,408,734 shares outstanding at June 30, 2013 and December 31, 2012, respectively	24,158	24,204

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Additional paid-in capital	483,386	480,595
Retained earnings	520,837	424,317
Accumulated other comprehensive income		4,418
Total stockholders' equity	1,028,381	933,534
	\$ 2,262,222	\$ 2,572,651

The accompanying notes are an integral part of these statements.

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share amounts)			
Revenues:				
Oil and gas sales	\$ 107,820	\$ 90,329	\$ 202,840	\$ 194,101
Gain on sale of oil and gas properties	81	20,338	81	27,065
Total revenues	107,901	110,667	202,921	221,166
Operating expenses:				
Production taxes	3,883	2,861	6,004	6,108
Gathering and transportation	4,354	7,106	8,556	14,821
Lease operating	12,962	12,193	26,168	25,651
Exploration	9,754	37	12,347	1,390
Depreciation, depletion and amortization	85,244	85,675	170,211	162,986
General and administrative, net	9,056	9,033	17,843	17,831
Impairment of oil and gas properties	652	5,301	652	5,350
Total operating expenses	125,905	122,206	241,781	234,137
Operating loss	(18,004)	(11,539)	(38,860)	(12,971)
Other income (expenses):				
Gain on sale of marketable securities			7,877	26,621
Realized gain from derivatives	2,881	2,719	5,201	1,365
Unrealized gain (loss) from derivatives	640	34,797	(8,127)	24,610
Interest and other income	196	283	441	522
Interest expense	(19,240)	(13,351)	(36,818)	(25,654)
Total other income (expenses)	(15,523)	24,448	(31,426)	27,464
Income (loss) before income taxes	(33,527)	12,909	(70,286)	14,493
Benefit from income taxes	11,996	3,801	24,238	3,634
Income (loss) from continuing operations	(21,531)	16,710	(46,048)	18,127
Income (loss) from discontinued operations, net of income taxes	151,236	(9,545)	148,609	(9,587)
Net income	\$ 129,705	\$ 7,165	\$ 102,561	\$ 8,540
Net income (loss) per share:				
Basic - income (loss) from continuing operations	\$ (0.45)	\$ 0.35	\$ (0.95)	\$ 0.38
- income (loss) from discontinued operations	3.13	(0.20)	3.07	(0.20)
- net income	\$ 2.68	\$ 0.15	\$ 2.12	\$ 0.18
Diluted - income (loss) from continuing operations	\$ (0.45)	\$ 0.35	\$ (0.95)	\$ 0.38
- income (loss) from discontinued operations	3.13	(0.20)	3.07	(0.20)



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- net income	\$ 2.68	\$ 0.15	\$ 2.12	\$ 0.18
Dividends per common share	\$ 0.125	\$	\$ 0.125	\$
Weighted average shares outstanding:				
Basic	46,754	46,426	46,742	46,399
Diluted	46,754	46,426	46,742	46,399

The accompanying notes are an integral part of these statements.

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	\$ 129,705	\$ 7,165	\$ 102,561	\$ 8,540
Unrealized gain from derivatives, net of benefit from income taxes of \$161				(298)
Net change in unrealized gains and losses on marketable securities, net of benefit from income taxes of \$682, \$2,380 and \$7,475		(1,268)	(4,418)	(13,880)
Other comprehensive loss		(1,268)	(4,418)	(14,178)
Comprehensive income (loss)	\$ 129,705	\$ 5,897	\$ 98,143	\$ (5,638)

The accompanying notes are an integral part of these statements.



## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

For the Six Months Ended June 30, 2013

(Unaudited)

	Common Stock (Shares)	Common Stock Par Value	Additional Paid-in Capital (In thousands)	Retained Earnings (In thousands)	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2013	48,409	\$ 24,204	\$ 480,595	\$ 424,317	\$ 4,418	\$ 933,534
Stock-based compensation	18	9	6,431			6,440
Restricted stock used for tax withholdings	(111)	(55)	(1,625)			(1,680)
Excess income taxes related to stock-based compensation			(2,015)			(2,015)
Net income				102,561		102,561
Dividends				(6,041)		(6,041)
Other comprehensive loss					(4,418)	(4,418)
Balance at June 30, 2013	48,316	\$ 24,158	\$ 483,386	\$ 520,837	\$	\$ 1,028,381



The accompanying notes are an integral part of these statements.

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2013	2012
	(In thousands)	
Cash Flows from Operating Activities:		
Net income	\$ 102,561	\$ 8,540
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations	(148,609)	9,587
Gain on sale of assets	(7,958)	(53,686)
Deferred income taxes	(24,238)	(3,435)
Dry hole costs and lease impairments	11,908	1,315
Impairment of oil and gas properties	652	5,350
Depreciation, depletion and amortization	170,211	162,986
Unrealized loss (gain) from derivatives	8,127	(24,610)
Debt issuance cost and discount amortization	3,218	2,103
Stock-based compensation	6,440	6,860
Excess income taxes related to stock-based compensation	2,015	1,670
Decrease (increase) in accounts receivable	(20,760)	17,880
Decrease (increase) in other current assets	243	(2,889)
Increase (decrease) in accounts payable and accrued liabilities	11,917	(14,283)
Net cash provided by continuing operations	115,727	117,388
Net cash provided by (used for) discontinued operations	(7,715)	24,510
Net cash provided by operating activities	108,012	141,898
Cash Flows from Investing Activities:		
Capital expenditures	(132,826)	(258,587)
Proceeds from sales of oil and gas properties		121,322
Proceeds from sales of marketable securities	13,392	37,705
Investing activities of continuing operations	(119,434)	(99,560)
Cash flows from investing activities of discontinued operations:		
Capital expenditures	(101,037)	(89,750)
Proceeds from sale of oil and gas properties	823,701	24,750
Net cash provided by (used for) investing activities of discontinued operations	722,664	(65,000)
Net cash provided by (used for) investing activities	603,230	(164,560)
Cash Flows from Financing Activities:		
Borrowings	95,000	390,912



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Principal payments on debt	(537,225)	(365,000)
Debt issuance costs	(15)	(6,535)
Tax withholding related to stock grants	(1,680)	
Excess income taxes from stock-based compensation	(2,015)	(1,670)
Dividends paid	(6,041)	
Net cash provided by (used for) financing activities	(451,976)	17,707
Net increase (decrease) in cash and cash equivalents	259,266	(4,955)
Cash and cash equivalents, beginning of period	4,471	8,460
Cash and cash equivalents, end of period	\$ 263,737	\$ 3,505

The accompanying notes are an integral part of these statements.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In management's opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position of Comstock Resources, Inc. and subsidiaries (Comstock or the Company) as of June 30, 2013 and the related results of operations and cash flows for the three months and six months ended June 30, 2013 and 2012.

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to those rules and regulations, although Comstock believes that the disclosures made are adequate to make the information presented not misleading. These unaudited consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in Comstock's Annual Report on Form 10-K for the year ended December 31, 2012.

The results of operations for the three months and six months ended June 30, 2013 are not necessarily an indication of the results expected for the full year.

These unaudited consolidated financial statements include the accounts of Comstock and its wholly owned and controlled subsidiaries. The consolidated financial statements for the three months and six months ended June 30, 2012 also include the accounts of a variable interest entity where the Company was the primary beneficiary of the arrangements. Intercompany balances and transactions have been eliminated in consolidation. In connection with a reverse like-kind exchange in accordance with Section 1031 of the Internal Revenue Code, the Company assigned the rights to acquire ownership of certain oil and gas properties acquired in 2011 to a variable interest entity formed by an exchange accommodation titleholder. The Company operated these properties pursuant to lease and management agreements with that entity, and had a call option which allowed the Company to terminate the exchange transaction at any time up and until the expiration date of the exchange. Because the Company was the primary beneficiary of these arrangements, all revenues and expenses incurred related to the properties are included in the Company's consolidated results of operations for the three months and six months ended June 30, 2012. These agreements terminated upon the transfer of the acquired properties from the exchange accommodation titleholder to Comstock in May 2012, when the exchange was finalized. The results of operations of the variable interest entity in the three months and six months ended June 30, 2012 are reflected as the results of operations of discontinued operations presented separately in these footnotes to the financial statements.

Reclassifications

Certain reclassifications have been made to prior periods' financial statements, consisting primarily of reclassifications to reflect the Company's West Texas oil and gas properties as discontinued operations.

Marketable Securities

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As of December 31, 2012, the Company held 600,000 shares of Stone Energy Corporation common stock which was reflected in the consolidated balance sheet as marketable securities. During the six months ended June 30, 2013, these shares with a cost basis of \$5.5 million were sold for proceeds of \$13.4 million. Comstock realized a gain before income taxes of \$7.9 million on the sale which is included in other income in the consolidated statements of operations. During the six months ended June 30, 2012, the Company sold 1,206,000 shares of Stone Energy Corporation common stock for

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total proceeds of \$37.7 million and realized a gain before income taxes of \$26.6 million for the six months ended June 30, 2012. The Company utilized the specific identification method to determine the cost of the securities that were sold.

### Property and Equipment

The Company follows the successful efforts method of accounting for its oil and gas properties. Costs incurred to acquire oil and gas leasehold are capitalized. The Company also assesses the need for an impairment of the costs capitalized for its oil and gas properties on a property or cost center basis. Impairment charges related to the Company's oil and gas properties of \$0.7 million were recognized during the three months and six months ended June 30, 2013 and \$5.4 million were recognized during the six months ended June 30, 2012.

Unproved oil and gas properties are periodically assessed and any impairment in value is charged to exploration expense. The costs of unproved properties which are determined to be productive are transferred to oil and gas properties and amortized on an equivalent unit-of-production basis. The Company's assessments of its unevaluated acreage have indicated that certain leases were expected to expire prior to the Company conducting drilling operations. Accordingly, impairment charges were recognized in exploration expense of \$9.5 million for the three months ended June 30, 2013 and \$11.9 million and \$1.3 million for the six months ended June 30, 2013 and 2012, respectively.

### West Texas Divestiture

On May 14, 2013, the Company completed the sale of its oil and gas properties located in Reeves and Gaines counties in West Texas to third parties for \$823.7 million and realized a gain of \$230.6 million which is reflected as a component of income from discontinued operations in the three and six months ended June 30, 2013.

Assets and liabilities of discontinued operations as of December 31, 2012 were as follows:

	(In thousands)
Accounts Receivable	\$ 5,924
Other Current Assets	1,644
Total Current Assets	7,568
Unproved Oil and Gas Properties	150,801
Proved Oil and Gas Properties:	
Leasehold Costs	225,546
Wells and related equipment and facilities	180,475
Other	673
Accumulated depreciation, depletion and amortization	(46,129)
Net Property and Equipment	511,366
Total Assets of Discontinued Operations	\$ 518,934
Accounts Payable	\$ 21,302
Accrued Liabilities	10,371
Reserve for Future Abandonment Costs	1,607
Liabilities of Discontinued Operations	\$ 33,280



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Income (loss) from discontinued operations was comprised of the following:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(In thousands)			
Revenues:				
Oil and gas sales	\$ 8,826	\$ 10,407	\$ 25,125	\$ 18,324
Costs and expenses:				
Production taxes	427	519	1,120	909
Gathering and transportation	170	232	501	409
Lease operating	3,545	1,755	9,853	3,046
Depletion, depreciation and amortization		4,408	8,649	6,194
Interest expense <sup>(1)</sup>	2,847	1,178	6,346	2,112
Total costs and expenses	6,989	8,092	26,469	12,670
Gain on sale of discontinued operations	230,637		230,637	
Income from discontinued operations before income taxes	232,474	2,315	229,293	5,654
Income tax expense:				
Current	(637)		(637)	
Deferred	(80,601)	(11,860)	(80,047)	(15,241)
Total income tax expense	(81,238)	(11,860)	(80,684)	(15,241)
Net income (loss) from discontinued operations	\$ 151,236	\$ (9,545)	\$ 148,609	\$ (9,587)
Net Production Data:				
Oil (Mbbbls)	96	124	270	197
Natural Gas (Mmcf)	141	145	410	272
Natural Gas Equivalent (Mmcfe)	720	885	2,031	1,451

(1) Interest expense was allocated to discontinued operations based on the ratio of the net assets of discontinued operations to our consolidated net assets plus long-term debt. Interest expense is net of capitalized interest of \$- and \$2,253 for the three months ended June 30, 2013 and 2012, respectively, and \$2,010 and \$4,393 for the six months ended June 30, 2013 and 2012, respectively.

Accrued Liabilities

Accrued liabilities at June 30, 2013 and December 31, 2012 consist of the following:

	As of June 30, 2013	As of December 31, 2012
	(In thousands)	
Accrued drilling costs	\$ 15,140	\$ 4,726
Accrued interest	12,244	12,351
Accrued transportation costs payable	3,075	3,553
Accrued taxes payable	3,546	
Accrued oil and gas property acquisition costs		2,413
Advance from joint venture partner		7,286
Other accrued liabilities	4,209	6,672
	\$ 38,214	\$ 37,001

## Reserve for Future Abandonment Costs

Comstock's asset retirement obligations relate to future plugging and abandonment expenses on its oil and gas properties and related facilities disposal. The following table summarizes the changes in Comstock's total estimated liability during the six months ended June 30, 2013 and 2012:

	Six Months Ended June 30,	
	2013	2012
	(In thousands)	
Future abandonment costs beginning of period	\$ 16,387	\$ 13,997
Accretion expense continuing operations	494	331
Accretion expense discontinued operations		19
New wells placed on production continuing operations	313	503
New wells placed on production discontinued operations		441
Liabilities settled and assets disposed of continuing operations	(534)	(1,077)
Liabilities settled and assets disposed of discontinued operations		(23)
Liabilities reclassified to discontinued operations		(1,179)
Future abandonment costs end of period	\$ 16,660	\$ 13,012

## Derivative Financial Instruments and Hedging Activities

Comstock periodically uses swaps, floors and collars to hedge oil and natural gas prices and interest rates. Swaps are settled monthly based on differences between the prices specified in the instruments and the settlement prices of futures contracts. Generally, when the applicable settlement price is less than the price specified in the contract, Comstock receives a settlement from the counterparty based on the difference multiplied by the volume or amounts hedged. Similarly, when the applicable settlement price exceeds the price specified in the contract, Comstock pays the counterparty based on the difference. Comstock generally receives a settlement from the counterparty for floors when the applicable settlement price is less than the price specified in the contract, which is based on the difference multiplied by the volumes hedged. For collars, generally Comstock receives a settlement from the counterparty when the settlement price is below the floor and pays a settlement to the counterparty when the settlement price exceeds the cap. No settlement occurs when the settlement price falls between the floor and cap.

As of June 30, 2013, the Company had the following outstanding commodity derivatives:

Commodity and Derivative Type	Weighted-Average		Contract Period
	Contract Price	Volume (barrels)	
Crude Oil Price Swap Agreements	\$98.69 per Barrel	1,040,000	July 2013

December 2013

All of the Company's derivative financial instruments are used for risk management purposes and by policy none are held for trading or speculative purposes. We attempt to minimize credit risk to counterparties of our derivative



financial instruments through formal credit policies, monitoring procedures, and diversification, and all of our derivative financial instruments are with parties that are lenders under our bank credit facility. The Company is not required to provide any credit support to its counterparties other than cross collateralization with the assets securing its bank credit facility.

None of the derivative contracts have been designated as cash flow hedges. The Company recognizes the realized gains and losses and unrealized gains and losses due to the change in the fair value of its derivative financial instruments as separate components of other income (expenses). The Company had realized gains on its oil price swaps of \$2.9 million and \$2.7 million during the three months ended June 30, 2013 and 2012, respectively, and \$5.2 million and \$1.4 million during the six months ended June 30, 2013 and 2012, respectively. The estimated fair value of the Company's derivative financial instruments, which equals their carrying value, was an asset of \$3.5 million and \$11.7 million as of June 30, 2013 and December 31, 2012, respectively, and are reflected as current assets based on estimated settlement dates. The Company had unrealized gains of \$0.6 million and \$34.8 million during the three months ended June 30, 2013 and 2012, respectively, due to the change in the fair value. The Company had an unrealized loss of

\$8.1 million and an unrealized gain of \$24.6 million during the six months ended June 30, 2013 and 2012, respectively, due to the change in the fair value.

### Stock-Based Compensation

Comstock accounts for employee stock-based compensation under the fair value method. Compensation cost is measured at the grant date based on the fair value of the award and is recognized over the award vesting period. During the three months ended June 30, 2013 and 2012, the Company recognized \$3.2 million and \$3.4 million, respectively, of stock-based compensation expense within general and administrative expenses related to awards of restricted stock and performance stock units to its employees and directors. For the six months ended June 30, 2013 and 2012, the Company recognized \$6.4 million and \$6.9 million, respectively, of stock-based compensation expense within general and administrative expenses.

As of June 30, 2013, Comstock had 1,519,889 shares of unvested restricted stock outstanding at a weighted average grant date fair value of \$24.02 per share. Total unrecognized compensation cost related to unvested restricted stock grants of \$14.3 million as of June 30, 2013 is expected to be recognized over a period of 2.0 years. As of June 30, 2013, Comstock had 249,302 performance stock units outstanding at a weighted average grant date fair value of \$21.19 per unit. Total unrecognized compensation cost related to these grants of \$3.7 million as of June 30, 2013 is expected to be recognized over a period of 1.7 years.

As of June 30, 2013, Comstock had outstanding options to purchase 115,150 shares of common stock at a weighted average exercise price of \$32.90 per share. All of the stock options were exercisable and there were no unrecognized costs related to the stock options as of June 30, 2013. No stock options were exercised during the six months ended June 30, 2013 or 2012.

### Income Taxes

The following is an analysis of consolidated income tax benefit from continuing operations:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(In thousands)			
Current benefit	\$ 3	\$ 116	\$ 199	\$ 199
Deferred benefit	11,993	3,685	24,238	3,435
Benefit from income taxes	\$ 11,996	\$ 3,801	\$ 24,238	\$ 3,634

Deferred income taxes are provided to reflect the future tax consequences or benefits of differences between the tax basis of assets and liabilities and their reported amounts in the financial statements using enacted tax rates. The difference between the Company's effective tax rate and the 35% federal statutory rate is mainly caused by non-deductible stock compensation and state taxes. The impact of these items varies based upon the Company's projected full year income or loss and the jurisdictions that are expected to generate the projected income and/or losses.

The difference between the Company's customary rate of 35% and the effective tax rate on income before income taxes from continuing operations is due to the following:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Tax at statutory rate	35.0%	35.0%	35.0%	35.0%
Tax effect of:				
Nondeductible stock-based compensation	0.6	(55.9)	(1.4)	(51.2)
State income taxes, net of federal benefit	0.3	(4.2)	1.1	(4.8)
Other	(0.1)	(4.4)	(0.2)	(4.1)
Effective tax rate	35.8%	(29.5%)	34.5%	(25.1%)

The Company's federal income tax returns for the years subsequent to December 31, 2007 remain subject to examination. The Company's income tax returns in major state income tax jurisdictions remain subject to examination from various periods subsequent to December 31, 2007. State tax returns in two state jurisdictions are currently under review. The Company has evaluated the preliminary findings in these jurisdictions and believes it is more likely than not that the ultimate resolution of these matters will not have a material effect on its financial statements. The Company currently believes that all other significant filing positions are highly certain and that all of its other significant income tax positions and deductions would be sustained under audit or the final resolution would not have a material effect on the consolidated financial statements. Therefore the Company has not established any significant reserves for uncertain tax positions.

#### Fair Value Measurements

The Company holds or has held certain items that are required to be measured at fair value. These include cash equivalents held in bank accounts and derivative financial instruments in the form of oil price swap agreements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A three-level hierarchy is followed for disclosure to show the extent and level of judgment used to estimate fair value measurements:

**Level 1** Inputs used to measure fair value are unadjusted quoted prices that are available in active markets for the identical assets or liabilities as of the reporting date.

**Level 2** Inputs used to measure fair value, other than quoted prices included in Level 1, are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.

**Level 3** Inputs used to measure fair value are unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The Company's cash equivalents and restricted cash valuations are a Level 1 measurement. The Company's oil price swap agreements are not traded on a public exchange, and their value is determined utilizing a discounted cash flow model based on inputs that are readily available in public markets and, accordingly, the valuation of these swap agreements is categorized as a Level 2 measurement.

The following table summarizes financial assets accounted for at fair value as of June 30, 2013:

	Carrying Value Measured at Fair Value at June 30, 2013	Level 1	Level 2
		(In thousands)	
Assets measured at fair value on a recurring basis:			

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Cash held in bank accounts	\$ 263,737	\$ 263,737	\$
Derivative financial instruments	3,524		3,524
Total assets	\$ 267,261	\$ 263,737	\$ 3,524

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The following table summarizes the changes in the fair values of derivative financial instruments, which are Level 2 assets, for the three months and six months ended June 30, 2013:

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
	(In thousands)	
Balance beginning of period	\$ 2,884	\$ 11,651
Purchases and settlements (net)	(2,881)	(5,201)
Realized gains included in other income (expenses)	2,881	5,201
Unrealized gains (losses) included in other income (expenses)	640	(8,127)
Balance at end of period	\$ 3,524	\$ 3,524

The following table presents the carrying amounts and estimated fair value of the Company's other financial instruments:

	As of June 30, 2013		As of December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Long-term debt, including current portion	\$ 883,324	\$ 947,547	\$ 1,324,383	\$ 1,382,000

The fair market value of the Company's fixed rate debt was based on the market prices as of June 30, 2013 and December 31, 2012, a Level 1 measurement. The fair value of the floating rate debt approximated its carrying value, a Level 2 measurement.

### Earnings Per Share

Basic earnings per share is determined without the effect of any outstanding potentially dilutive stock options and diluted earnings per share is determined with the effect of outstanding stock options that are potentially dilutive. Unvested share-based payment awards containing nonforfeitable rights to dividends are considered to be participatory securities and are included in the computation of basic and diluted earnings per share pursuant to the two-class method. Performance share units ( PSUs ) represent the right to receive a number of shares of the Company's common stock that may range from zero to up to three times the number of PSUs granted on the award date based on the achievement of certain performance measures during a performance period. The number of potentially dilutive shares related to PSUs is based on the number of shares, if any, which would be issuable at the end of the respective period, assuming that date was the end of the contingency period. The treasury stock method is used to measure the dilutive effect of PSUs.



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Basic and diluted earnings per share for the three months and six months ended June 30, 2013 and 2012 were determined as follows:

	Three Months Ended June 30,					
	2013		Per		2012	
	Income (Loss)	Shares	Share	Income (Loss)	Shares	Per Share
	(In thousands, except per share amounts)					
Net Income (Loss) From Continuing Operations	\$ (21,531)			\$ 16,710		
(Income) Loss Allocable to Unvested Stock Grants	697			(601)		
Basic Net Income (Loss) From Continuing Operations Attributable to Common Stock	\$ (20,834)	46,754	\$ (0.45)	\$ 16,109	46,426	\$ 0.35
Effect of Dilutive Securities: Stock Options Performance Stock Units						
Diluted Net Income (Loss) From Continuing Operations Attributable to Common Stock	\$ (20,834)	46,754	\$ (0.45)	\$ 16,109	46,426	\$ 0.35
Net Income (Loss) From Discontinued Operations	\$ 151,236			\$ (9,545)		
(Income) Loss Allocable to Unvested Stock Grants	(4,893)			343		
Basic Net Income (Loss) From Discontinued Operations Attributable to Common Stock	\$ 146,343	46,754	\$ 3.13	\$ (9,202)	46,426	\$ (0.20)
Effect of Dilutive Securities: Stock Options Performance Stock Units						
Diluted Net Income (Loss) From Discontinued Operations Attributable to Common Stock	\$ 146,343	46,754	\$ 3.13	\$ (9,202)	46,426	\$ (0.20)

Six Months Ended June 30,			
2013		2012	
Shares	Per	Shares	



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	Income (Loss)		Share	Income (Loss)		Per Share	
		(In thousands, except per share amounts)					
Net Income (Loss) From Continuing Operations	\$ (46,048)			\$ 18,127			
(Income) Loss Allocable to Unvested Stock Grants	1,495			(653)			
Basic Net Income (Loss) From Continuing Operations Attributable to Common Stock	\$ (44,553)	46,742	\$ (0.95)	\$ 17,474	46,399	\$ 0.38	
Effect of Dilutive Securities: Stock Options Performance Stock Units							
Diluted Net Income (Loss) From Continuing Operations Attributable to Common Stock	\$ (44,553)	46,742	\$ (0.95)	\$ 17,474	46,399	\$ 0.38	
Net Income (Loss) From Discontinued Operations	\$ 148,609			\$ (9,587)			
(Income) Loss Allocable to Unvested Stock Grants	(4,825)			345			
Basic Net Income (Loss) From Discontinued Operations Attributable to Common Stock	\$ 143,784	46,742	\$ 3.07	\$ (9,242)	46,399	\$ (0.20)	
Effect of Dilutive Securities: Stock Options Performance Stock Units							