

COMSTOCK RESOURCES INC
Form 10-Q
August 11, 2008

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 Quarterly Period Ended June 30, 2008

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
incorporation or organization)

94-1667468
(I.R.S. Employer
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 is a large accelerated filer, an accelerated filer, or a non-accelerated

Edgar Filing: COMSTOCK RESOURCES INC - Form 10-Q

filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

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 \$.50, as of August 8, 2008 was 46,016,345.

COMSTOCK RESOURCES, INC.

QUARTERLY REPORT

For The Quarter Ended June 30, 2008

INDEX

| | Page |
|---|------|
| PART I. Financial Information | |
| Item 1. Financial Statements (Unaudited): | |
| Consolidated Balance Sheets - June 30, 2008 and December 31, 2007 | 4 |
| Consolidated Statements of Operations - Three months and six months ended June 30, 2008 and 2007 | 5 |
| Consolidated Statement of Stockholders' Equity and Comprehensive Income - Six months ended June 30, 2008 | 6 |
| Consolidated Statements of Cash Flows - Six months ended June 30, 2008 and 2007 | 7 |
| Notes to Consolidated Financial Statements | 8 |
| Independent Accountants' Review Report | 21 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 22 |
| Item 3. Quantitative and Qualitative Disclosure About Market Risk | 27 |
| Item 4. Controls and Procedures | 27 |
| PART II. Other Information | |
| Item 4. Submission of Matters to a Vote of Security Holders | 28 |
| Item 6. Exhibits | 28 |
| Awareness Letter of Ernst & Young LLP | |
| Section 302 Certification of the Chief Executive Officer | |
| Section 302 Certification of the Chief Financial Officer | |
| Certification for the Chief Executive Officer as required by Section 906 | |
| Certification for the Chief Financial Officer as required by Section 906 | |

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

| | June 30, 2008 | December 31, 2007 |
|--|------------------|-------------------------|
| ASSETS | | |
| | (In thousands) | |
| Cash and Cash | | |
| Equivalents | \$ 8,709 | \$ 5,565 |
| Accounts Receivable: | | |
| Oil and gas | | |
| sales | 63,258 | 36,245 |
| Joint interest | | |
| operations | 10,706 | 12,406 |
| Current Deferred Tax | | |
| Asset | 10,140 | — |
| Other Current | | |
| Assets | 5,162 | 3,987 |
| Total current assets | 97,975 | 58,203 |
| Property and Equipment: | | |
| Unevaluated oil and gas properties | 19,362 | 5,804 |
| Oil and gas properties, successful efforts method | 1,798,610 | 1,812,637 |
| Other property and | | |
| equipment | 5,487 | 5,013 |
| Accumulated depreciation, depletion and amortization | (547,275) | (512,895) |
| Net property and | | |
| equipment | 1,276,184 | 1,310,559 |
| Other | | |
| Assets | 3,554 | 3,943 |
| Assets of Discontinued | | |
| Operations | 1,031,982 | 981,682 |
| | \$ 2,409,695 | \$ 2,354,387 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|-------------|-----------|-----------|
| Accounts | | |
| Payable | \$ 85,415 | \$ 71,579 |
| Accrued | | |
| Expenses | 11,193 | 11,888 |
| Derivatives | 29,331 | — |
| | 125,939 | 83,467 |

Edgar Filing: COMSTOCK RESOURCES INC - Form 10-Q

| | | |
|--|--------------|--------------|
| Total current liabilities | | |
| Long-term Debt | 495,000 | 680,000 |
| Deferred Income Taxes | | |
| Payable | 132,198 | 92,088 |
| Derivatives | 10,749 | — |
| Reserve for Future Abandonment Costs | 7,555 | 7,512 |
| Liabilities of Discontinued Operations | 434,775 | 452,235 |
| Minority Interest in Discontinued Operations | 311,306 | 267,441 |
| Total liabilities | 1,517,522 | 1,582,743 |
| Commitments and Contingencies | | |
| Stockholders' Equity: | | |
| Common stock – \$0.50 par, 50,000,000 shares authorized, 46,016,345 and 45,428,095 shares outstanding at June 30, 2008 and December 31, 2007, respectively | 23,008 | 22,714 |
| Additional paid-in capital | 409,318 | 386,986 |
| Retained earnings | 485,666 | 361,944 |
| Accumulated other comprehensive loss | (25,819) | — |
| Total stockholders' equity | 892,173 | 771,644 |
| | \$ 2,409,695 | \$ 2,354,387 |

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, | |
| | 2008 | 2007 | 2008 | 2007 |

(In thousands, except per share amounts)

Revenues:

| | | | | |
|------------------------|------------|-----------|------------|------------|
| Oil and gas sales | \$ 172,022 | \$ 83,160 | \$ 299,743 | \$ 153,007 |
| Gain on sale of assets | 21,444 | — | 21,204 | — |

Operating expenses:

| | | | | |
|--|--------|--------|---------|---------|
| Oil and gas operating | 23,362 | 17,624 | 44,564 | 31,679 |
| Exploration | — | 1,878 | 2,238 | 2,276 |
| Depreciation, depletion and amortization | 44,422 | 30,248 | 85,927 | 57,608 |
| General and administrative, net | 6,922 | 5,588 | 13,086 | 11,838 |
| Total operating expenses | 74,706 | 55,338 | 145,815 | 103,401 |

| | | | | |
|---|---------|--------|---------|--------|
| Operating income from continuing operations | 118,760 | 27,822 | 175,132 | 49,606 |
|---|---------|--------|---------|--------|

Other income (expenses):

| | | | | |
|-------------------------------|---------|---------|----------|----------|
| Interest income | 205 | 197 | 366 | 388 |
| Other income | 36 | 39 | 58 | 77 |
| Interest expense | (8,546) | (7,775) | (18,497) | (14,060) |
| Total other income (expenses) | (8,305) | (7,539) | (18,073) | (13,595) |

| | | | | |
|---|---------|--------|---------|--------|
| Income from continuing operations before income taxes | 110,455 | 20,283 | 157,059 | 36,011 |
|---|---------|--------|---------|--------|

| | | | | |
|-----------------------------------|----------|---------|----------|----------|
| Provision for income taxes | (40,027) | (7,312) | (57,229) | (13,641) |
| Income from continuing operations | 70,428 | 12,971 | 99,830 | 22,370 |

Income from discontinued operations after income

| | | | | |
|-----------------------------|-----------|-----------|------------|-----------|
| taxes and minority interest | 12,199 | 5,246 | 23,892 | 8,405 |
| Net income | \$ 82,627 | \$ 18,217 | \$ 123,722 | \$ 30,775 |

Basic net income per share:

| | | | | |
|-------------------------|---------|---------|---------|---------|
| Continuing operations | \$ 1.59 | \$ 0.30 | \$ 2.25 | \$ 0.52 |
| Discontinued operations | 0.28 | 0.12 | 0.54 | 0.19 |
| | \$ 1.87 | \$ 0.42 | \$ 2.79 | \$ 0.71 |

Diluted net income per share:

| | | | | |
|-------------------------|---------|---------|---------|---------|
| Continuing operations | \$ 1.55 | \$ 0.29 | \$ 2.21 | \$ 0.51 |
| Discontinued operations | 0.26 | 0.12 | 0.51 | 0.18 |
| | \$ 1.81 | \$ 0.41 | \$ 2.72 | \$ 0.69 |

Edgar Filing: COMSTOCK RESOURCES INC - Form 10-Q

Weighted average shares outstanding:

| | | | | |
|---------|--------|--------|--------|--------|
| Basic | 44,287 | 43,374 | 44,296 | 43,369 |
| Diluted | 45,373 | 44,361 | 45,246 | 44,300 |

The accompanying notes are an integral part of these statements.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME

For the Six Months Ended June 30, 2008

(Unaudited)

| | Common Stock (Shares) | Common Stock – Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|---|-----------------------------|-----------------------------------|----------------------------------|----------------------|---|------------|
| (In thousands) | | | | | | |
| Balance at January 1, 2008 | \$ 45,428 | \$ 22,714 | \$ 386,986 | \$ 361,944 | \$ — | \$ 771,644 |
| Exercise of stock options and warrants | 591 | 296 | 7,982 | — | — | 8,278 |
| Stock-based compensation | (3) | (2) | 5,718 | — | — | 5,716 |
| Tax benefit from stock-based compensation | — | — | 8,632 | — | — | 8,632 |
| Net income | — | — | — | 123,722 | — | 123,722 |
| Unrealized hedging losses, net of income taxes | — | — | — | — | (25,819) | (25,819) |
| Total comprehensive income | — | — | — | — | — | 97,903 |
| Balance at June 30, 2008 | \$ 46,016 | \$ 23,008 | \$ 409,318 | \$ 485,666 | \$ (25,819) | \$ 892,173 |

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, | |
|---|------------------------------|-----------|
| | 2008 | 2007 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 123,722 | \$ 30,775 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Income from discontinued operations | (23,892) | (8,405) |
| Deferred income taxes | 52,504 | 11,846 |
| Dry hole costs and leasehold impairments | 2,238 | 2,276 |
| Depreciation, depletion and amortization | 85,927 | 57,608 |
| Gain on sale of assets | (21,204) | — |
| Debt issuance cost amortization | 405 | 405 |
| Stock-based compensation | 5,716 | 5,261 |
| Excess tax benefit from stock-based compensation | (8,632) | (600) |
| Unrealized loss on derivatives | 359 | — |
| Increase in accounts receivable | (25,316) | (10,839) |
| (Decrease) increase in other current assets | (1,175) | 57 |
| Increase in accounts payable and accrued expenses | 10,078 | 28,687 |
| Net cash provided by operating activities from continuing operations | 200,730 | 117,071 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (143,281) | (205,804) |
| Proceeds from asset sales | 113,801 | — |
| Net cash used for investing activities from continuing operations | (29,480) | (205,804) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings | 10,000 | 114,000 |
| Principal payments on debt | (195,000) | — |
| Proceeds from issuance of common stock | 8,278 | 138 |
| Excess tax benefit from stock-based compensation | 8,632 | 600 |
| Debt issuance costs | (16) | — |
| Net cash provided by (used for) financing activities from continuing operations | (168,106) | 114,738 |
| CASH FLOWS FROM DISCONTINUED OPERATIONS: | | |
| Net cash flows provided by operating activities | 180,143 | 98,254 |
| Net cash flows used for investing activities | (117,013) | (123,541) |
| Net cash flows provided by (used for) financing activities | (63,130) | 25,221 |
| Net cash used for discontinued operations | — | (66) |

Edgar Filing: COMSTOCK RESOURCES INC - Form 10-Q

| | | |
|--|----------|-----------|
| Net increase in cash and cash equivalents | 3,144 | 25,939 |
| Cash and cash equivalents, beginning of period | 5,565 | 1,228 |
| Cash and cash equivalents, end of period | \$ 8,709 | \$ 27,167 |

The accompanying notes are an integral part of these statements.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008
(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, 2008 and the related results of operations for the three months and six months ended June 30, 2008 and 2007 and cash flows for the six months ended June 30, 2008 and 2007.

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 of the Company included in Comstock's Annual Report on Form 10-K for the year ended December 31, 2007.

The results of operations for the three months and six months ended June 30, 2008 are not necessarily an indication of the results expected for the full year.

These unaudited consolidated financial statements include the accounts of Comstock and subsidiaries in which it has a controlling interest. Intercompany balances and transactions have been eliminated in consolidation.

Comstock's offshore operations have historically been conducted through its subsidiary, Bois d'Arc Energy, Inc. ("Bois d'Arc Energy"). Bois d'Arc Energy has entered into a definitive merger agreement with Stone Energy Corporation ("Stone") in which Bois d'Arc Energy stockholders will exchange each share of Bois d'Arc Energy common stock for \$13.65 in cash and 0.165 shares of Stone common stock. Subsequent to this merger, Comstock's stock ownership of Stone will be less than a controlling interest. The merger agreement has been approved by the respective boards' of directors of Bois d'Arc Energy and Stone, and the stockholders of Bois d'Arc Energy and Stone will be holding stockholder meetings on August 27, 2008 to consider and vote upon the proposed merger. The Company has entered into a voting agreement with Stone in which among other matters Comstock has agreed to vote its shares in favor of the merger. The Company believes it is highly likely that the stockholders of both companies will approve the merger and that the merger will close during the third quarter of 2008. Accordingly, the Company is presenting the results of the offshore operations of Bois d'Arc Energy as discontinued operations. Below is the summary financial information of discontinued operations.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Income from discontinued operations for the three and six months ended June 30, 2008 was comprised of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------|------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| | (In thousands) | | | |
| Oil and Gas Sales | \$ 147,990 | \$ 91,046 | \$ 261,256 | \$ 167,228 |
| Total Operating Expenses | (87,039) | (62,630) | (141,126) | (119,192) |
| Operating Income From Discontinued Operations | 60,951 | 28,416 | 120,130 | 48,036 |
| Other Income (Expense): | (745) | (2,111) | (1,890) | (4,078) |
| Income from Discontinued Operations Before Income Taxes | 60,206 | 26,305 | 118,240 | 43,958 |
| Provision for Income Taxes | (27,715) | (12,249) | (54,586) | (20,744) |
| Minority Interest in Earnings | (20,292) | (8,810) | (39,762) | (14,809) |
| Income from Discontinued Operations | \$ 12,199 | \$ 5,246 | \$ 23,892 | \$ 8,405 |

Assets and liabilities of discontinued operations as of June 30, 2008 and December 31, 2007 were as follows:

| | June 30, 2008 | December 31, 2007 |
|---|------------------|-------------------------|
| | (In thousands) | |
| Current Assets | \$ 83,094 | \$ 66,302 |
| Property and Equipment, Net | 948,314 | 912,316 |
| Other Assets | 574 | 3,064 |
| Total Assets of Discontinued Operations | \$ 1,031,982 | \$ 981,682 |
| Current Liabilities | \$ 78,924 | \$ 47,333 |
| Long-term Debt | — | 80,000 |
| Deferred Income Taxes Payable | 309,739 | 279,808 |
| Reserve for Future Abandonment Costs | 46,112 | 45,094 |
| Liabilities of Discontinued Operations | \$ 434,775 | \$ 452,235 |
| Minority Interest in Bois d'Arc Energy | \$ 311,306 | \$ 267,441 |

Reclassifications

Certain reclassifications have been made to prior periods' financial statements to conform to the current presentation.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Asset Retirement Obligations

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, 2008 and 2007:

| | Six Months Ended June 30, | |
|--|------------------------------|----------|
| | 2008 | 2007 |
| | (In thousands) | |
| Beginning asset retirement obligations | \$ 7,512 | \$ 9,052 |
| Accretion expense | 227 | 267 |
| New wells placed on production and changes in estimates | 313 | 253 |
| Liabilities settled | (497) | (98) |
| Future abandonment liability — end of period | \$ 7,555 | \$ 9,474 |

Derivative 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 counter party 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 counter party based on the difference. Comstock generally receives a settlement from the counter party 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 volume amounts hedged. For collars, generally Comstock receives a settlement from the counter party when the settlement price is below the floor and pays a settlement to the counter party when the settlement price exceeds the cap. No settlement occurs when the settlement price falls between the floor and cap.

In January 2008, Comstock entered into natural gas swaps which fix the price at \$8.00 per Mmbtu (at the Houston Ship Channel) for 520,000 Mmbtu's per month of production from certain properties in South Texas for the period February 2008 through December 2009. The Company designated these swaps at their inception as cash flow hedges. Realized gains and losses are included in oil and natural gas sales in the month of production. Changes in the fair value of derivative instruments designated as cash flow hedges to the extent they are effective in offsetting cash flows attributable to the hedged risk are recorded in other comprehensive income until the hedged item is recognized in earnings. Any change in fair value resulting from ineffectiveness is recognized currently in oil and natural gas sales as unrealized gains (losses). The Company realized losses of \$4.4 million and \$4.6 million on the natural gas price swaps during the three and six months ended June 30, 2008, respectively, which are included in oil and gas sales in the accompanying Consolidated Statements of Operations. As of June 30, 2008, the estimated fair value of the Company's derivative financial instruments, which equals their carrying value, was a liability of \$40.1 million, of which \$29.3 million was classified as current and \$10.8 million was classified as long-term.

The Company had no derivative financial instruments outstanding during the six months ended June 30, 2007.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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, 2008 and 2007, the Company recognized \$3.1 million and \$2.6 million, respectively, in stock-based compensation expense within general and administrative expenses related to stock option and restricted stock grants. Stock based compensation expense for the six months ended June 30, 2008 and 2007 was \$5.7 million and \$5.3 million, respectively. The excess income tax benefit realized from the deductions associated with stock-based compensation for the six months ended June 30, 2008 and 2007 was \$8.6 million and \$0.6 million, respectively.

The fair value of stock option grants is estimated on the date of the grant using a Black-Scholes option pricing model. Some of the inputs to the option valuation model are subjective, including assumptions regarding expected stock price volatility. During the six months ended June 30, 2008, Comstock granted options to purchase 40,000 shares at an exercise price of \$54.36 per share. The fair value of the options awarded was determined to be \$19.76 per share. Assumptions used to value these stock options included expected volatility of 38.9%, expected lives of 4.3 years, a risk-free interest rate of 3.3% and an expected dividend yield of zero. As of June 30, 2008, total unrecognized compensation cost related to nonvested stock options of \$2.2 million is expected to be recognized over a period of 2.5 years. Options outstanding at June 30, 2008 totaled 456,870, of which 305,120 were exercisable.

As of June 30, 2008, Comstock had 1.3 million shares of unvested restricted stock outstanding at a weighted average grant date fair value of \$31.58 per share. Total unrecognized compensation cost related to the unvested restricted stock grants of \$25.1 million as of June 30, 2008 is expected to be recognized over a period of 3.5 years.

Income Taxes

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 customary rate of 35% and the effective tax rate on income from continuing operations is due to the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|--------|------------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| Tax at statutory rate | 35.0% | 35.0% | 35.0% | 35.0% |
| Tax effect of: | | | | |
| Non deductible stock-based compensation | 0.4% | 2.2% | 0.9% | 3.2% |
| Changes due to tax law changes | —% | (3.8%) | —% | (2.1%) |
| State income taxes, net of federal benefit | 0.7% | 2.2% | 0.8% | 1.8% |
| Other | 0.1% | 0.5% | (0.3%) | —% |
| Effective tax rate | 36.2% | 36.1% | 36.4% | 37.9% |

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------|--------------------------------|----------|------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| | (In thousands) | | | |
| Current provision | \$ 2,754 | \$ 950 | \$ 4,725 | \$ 1,795 |
| Deferred provision | 37,273 | 6,362 | 52,504 | 11,846 |
| Provision for Income Taxes | \$ 40,027 | \$ 7,312 | \$ 57,229 | \$ 13,641 |

Earnings Per Share

Basic earnings per share is determined without the effect of any outstanding potentially dilutive stock options or unvested restricted stock and diluted earnings per share is determined with the effect of outstanding stock options and unvested restricted stock that are potentially dilutive. Basic and diluted earnings per share for the three months and six months ended June 30, 2008 and 2007, respectively, were determined as follows:

| | | Three Months Ended June 30, | | | | |
|---|-----------|-----------------------------|-----------|-----------|--------|-----------|
| | | 2008 | | | 2007 | |
| | Income | Shares | Per Share | Income | Shares | Per Share |
| (In thousands, except per share amounts) | | | | | | |
| Basic Earnings Per Share: | | | | | | |
| Income From Continuing Operations | \$ 70,428 | 44,287 | \$ 1.59 | \$ 12,971 | 43,374 | \$ 0.30 |
| Income from Discontinued Operations After Income Taxes and Minority Interest | 12,199 | 44,287 | 0.28 | 5,246 | 43,374 | 0.12 |
| Net Income | \$ 82,627 | 44,287 | \$ 1.87 | \$ 18,217 | 43,374 | \$ 0.42 |
| Diluted Earnings Per Share: | | | | | | |
| Income from Continuing Operations | \$ 70,428 | 44,287 | \$ 1.59 | \$ 12,971 | 43,374 | \$ 0.30 |
| Effect of Dilutive Securities: Stock Grants and Options | — | 1,086 | | — | 987 | |
| Income from Continuing Operations With Assumed Conversions | \$ 70,428 | 45,373 | \$ 1.55 | \$ 12,971 | 44,361 | \$ 0.29 |
| | \$ 12,199 | 45,373 | \$ 0.27 | \$ 5,246 | 44,361 | \$ 0.12 |

| | | | | | | |
|---|-----------|--------|---------|-----------|--------|---------|
| Income from Discontinued Operations After Income Taxes and Minority Interest Effect of Dilutive Securities: | | | | | | |
| Stock Grants and Options | (361) | — | | (160) | — | |
| Income from Discontinued Operations, After Income Taxes and Minority Interest with Assumed Conversions | 11,838 | 45,373 | 0.26 | 5,086 | 44,361 | 0.12 |
| Net Income | \$ 82,266 | 45,373 | \$ 1.81 | \$ 18,057 | 44,361 | \$ 0.41 |

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

| | | Six Months Ended June 30, | | | | |
|---|------------|---------------------------|--|-----------|--------|-----------|
| | | 2008 | Per Share | Income | 2007 | Per Share |
| | Income | Shares | (In thousands, except per share amounts) | | Shares | |
| Basic Earnings Per Share: | | | | | | |
| Income From Continuing Operations | \$ 99,830 | 44,296 | \$ 2.25 | \$ 22,370 | 43,369 | \$ 0.52 |
| Income from Discontinued Operations After Income Taxes and Minority Interest | 23,892 | 44,296 | 0.54 | 8,405 | 43,369 | 0.19 |
| Net Income | \$ 123,722 | 44,296 | \$ 2.79 | \$ 30,775 | 43,369 | \$ 0.71 |
| Diluted Earnings Per Share: | | | | | | |
| Income from Continuing Operations | \$ 99,830 | 44,296 | \$ 2.25 | \$ 22,370 | 43,369 | \$ 0.52 |
| Effect of Dilutive Securities: Stock Grants and Options | — | 950 | | — | 931 | |
| Income from Continuing Operations With Assumed Conversions | \$ 99,830 | 45,246 | \$ 2.21 | \$ 22,370 | 44,300 | \$ 0.51 |
| Income from Discontinued Operations After Income Taxes and Minority Interest | \$ 23,892 | 44,246 | \$ 0.53 | \$ 8,405 | 44,300 | \$ 0.19 |
| Effect of Dilutive Securities: Stock Grants and Options | (675) | — | | (255) | — | |
| Income from Discontinued Operations After Income Taxes and Minority Interest with Assumed Conversions | 23,217 | 45,246 | 0.51 | 8,150 | 44,300 | 0.18 |
| Net Income | \$ 123,047 | 45,246 | \$ 2.72 | \$ 30,520 | 44,300 | \$ 0.69 |

Stock options to purchase common stock at exercise prices in excess of the average actual stock price for the period that were anti-dilutive and that were excluded from the determination of diluted earnings per share are as follows:

Three Months Ended

Six Months Ended

Edgar Filing: COMSTOCK RESOURCES INC - Form 10-Q

| | June 30, 2008 | June 30, 2007 | June 30, 2008 | June 30, 2007 |
|--|--------------------------------------|------------------|------------------|------------------|
| | (In thousands except per share data) | | | |
| Weighted average anti-dilutive stock options | 22 | 256 | 21 | 244 |
| Weighted average exercise price | \$ 54.36 | \$ 32.48 | \$ 43.97 | \$ 32.64 |

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). This statement establishes a framework for fair value measurements in the financial statements by providing a single definition of fair value, provides guidance on the methods used to estimate fair value and increases disclosures about estimates of fair value. The Company adopted SFAS 157 and its related amendments for financial assets and liabilities effective as of January 1, 2008. SFAS 157 will be effective for non-financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2008.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

SFAS 157 defines fair value 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. SFAS 157 establishes a three-level hierarchy 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.

At January 1, 2008, the Company had no financial assets and liabilities that were accounted for at fair value. Accordingly, adoption of SFAS 157 had no impact on the carrying amounts of the Company's assets and liabilities. As of June 30, 2008, the Company had derivative instruments, in the form of natural gas price swap agreements, which are required to be measured at fair value on a recurring basis. The Company's natural gas price swaps are not traded on a public exchange. The value of natural gas price swap agreements is determined utilizing a discounted cash flow model based on inputs that are not readily available in public markets and, accordingly, these swap agreements have been categorized as Level 3 within the valuation hierarchy.

The following table summarizes the changes in the fair values of the natural gas swaps, which are Level 3 liabilities, for the six months ended June 30, 2008:

| | (In thousands) |
|---|-------------------|
| Balance at January 1, 2008 \$ | — |
| Purchases and settlements (net) | 4,269 |
| Hedge ineffectiveness | 359 |
| Total realized or unrealized losses: | |
| Included in earnings | (4,628) |
| Included in other comprehensive income | 40,080 |
| Balance at June 30, 2008 \$ | 40,080 |

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Supplementary Information With Respect to the Consolidated Statements of Cash Flows –

For the purpose of the consolidated statements of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At June 30, 2008 and December 31, 2007 the Company's cash investments consisted of overnight Eurodollar deposits with a bank.

The following is a summary of cash payments made for interest and income taxes:

| | Six Months Ended June 30, | |
|-------------------------------|------------------------------|-----------|
| | 2008 | 2007 |
| | (In thousands) | |
| Cash Payments - | | |
| Interest payments | \$ 18,274 | \$ 14,200 |
| Income tax payments (refunds) | \$ 2,644 | \$ 114 |

(2) LONG-TERM DEBT –

At June 30, 2008, long-term debt was comprised of the following:

| | (In thousands) |
|---|----------------|
| Comstock Revolving Bank Credit Facility | \$ 320,000 |
| Comstock 6 % Senior Notes due 2012 | 175,000 |
| | \$ 495,000 |

Comstock has a \$850.0 million bank credit facility with Bank of Montreal, as the administrative agent. The credit facility is a five-year revolving credit commitment that matures on December 15, 2011. Indebtedness under the credit facility is secured by Comstock and its wholly-owned subsidiaries' oil and gas properties and is guaranteed by all of its wholly-owned subsidiaries. The credit facility is subject to borrowing base availability, which is redetermined semiannually based on the banks' estimates of the future net cash flows of Comstock's oil and natural gas properties. The borrowing base may be affected by the performance of Comstock's properties and changes in oil and natural gas prices. The determination of the borrowing base is at the sole discretion of the administrative agent and the bank group. As of June 30, 2008, the borrowing base was \$590.0 million, \$270.0 million of which was available. Borrowings under the credit facility bear interest, based on the utilization of the borrowing base, at Comstock's option at either (1) LIBOR plus 1.0% to 1.75% or (2) the base rate (which is the higher of the prime rate or the federal funds rate) plus 0% to 0.25%. A commitment fee of 0.25% to 0.375%, based on the utilization of the borrowing base, is payable on the unused borrowing base. The credit facility contains covenants that, among other things, restrict the payment of cash dividends in excess of \$40.0 million, limit the amount of consolidated debt that Comstock may incur and limit the Company's ability to make certain loans and investments. The only financial covenants are the maintenance of a ratio of current assets, including availability under the bank credit facility, to current liabilities of at least one-to-one and maintenance of a minimum tangible net worth. The Company was in compliance with these covenants as of June 30, 2008.

(3) COMMITMENTS AND CONTINGENCIES –

From time to time, Comstock is involved in certain litigation that arises in the normal course of its operations. The Company records a loss contingency for these matters when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company does not believe the resolution of these matters will have a material effect on the Company's financial position or results of operations.

In connection with its exploration and development activities, the Company contracts for drilling rigs under terms of up to 5 years. As of June 30, 2008, the Company had commitments for contracted drilling services of \$126.4 million.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(4) SALE OF PROPERTIES –

In June 2008, the Company sold its interests in certain producing properties in East and South Texas and received net proceeds of \$113.8 million. These properties had estimated proved reserves attributable of 44.3 Bcfe and production attributable to these properties averaged 8.4 MMcfe per day during the six months ended June 30, 2008. Comstock recognized a gain of \$21.4 million (\$13.9 million after income taxes) on these sales which is included in the accompanying consolidated statement of operations.

(5) CONSOLIDATING FINANCIAL STATEMENTS –

Comstock Resources, Inc. ("Parent") has \$175.0 million of 6 % senior notes outstanding which are guaranteed by all of the Parent's wholly-owned subsidiaries. There are no restrictions on the Parent's ability to obtain funds from any of the guarantor subsidiaries or on a guarantor subsidiary's ability to obtain funds from the Parent or their direct or indirect subsidiaries. The 6 % senior notes are not guaranteed by Bois d'Arc Energy and its subsidiaries (the non-guarantor subsidiaries). The following condensed consolidating balance sheets, statements of operations and statements of cash flows are provided for the Parent, all guarantor subsidiaries and all non-guarantor subsidiaries. The information has been presented as if the Parent accounted for its ownership of the guarantor and non-guarantor subsidiaries using the equity method of accounting. As a result of the pending sale of the Company's interest in Bois d'Arc Energy, which is expected to close in late August 2008, the balances of Bois d'Arc Energy, which represent all of the Company's offshore operations, are reflected as discontinued operations in these consolidating financial statements.

Balance Sheet:

| | Comstock Resources | Guarantor Subsidiaries | As of June 30, 2008 Non-Guarantor Subsidiaries (In thousands) | Eliminating Entries | Consolidated |
|--------------------------------------|-----------------------|---------------------------|--|------------------------|--------------|
| Assets: | | | | | |
| Cash and Cash Equivalents | \$ — | \$ 8,709 | \$ — | \$ — | \$ 8,709 |
| Accounts Receivable | — | 73,964 | — | — | 73,964 |
| Current Deferred Tax Asset | — | 10,140 | — | — | 10,140 |
| Other Current Assets | 775 | 4,387 | — | — | 5,162 |
| Total current assets | 775 | 97,200 | — | — | 97,975 |
| Net Property and Equipment | 3,404 | 1,272,780 | — | — | 1,276,184 |
| Investment in Subsidiaries | 565,797 | — | — | (565,797) | — |
| Intercompany Receivables | 493,377 | — | — | (493,377) | — |
| Other Assets | 3,554 | — | — | — | 3,554 |
| Assets of Discontinued Operations | 397,559 | — | 1,006,340 | (371,917) | 1,031,982 |

Edgar Filing: COMSTOCK RESOURCES INC - Form 10-Q

| | | | | | |
|---|--------------|--------------|--------------|-----------------|--------------|
| Total assets | \$ 1,464,466 | \$ 1,369,980 | \$ 1,006,340 | \$ (1,431,091) | \$ 2,409,695 |
| Liabilities and Stockholders' Equity: | | | | | |
| Accounts Payable and Accrued Expenses | \$ 9,025 | \$ 87,583 | \$ — | \$ — | \$ 96,608 |
| Derivatives | — | 29,331 | — | — | 29,331 |
| Total current liabilities | 9,025 | 116,914 | — | — | 125,939 |
| Long-term Debt | 495,000 | — | — | — | 495,000 |
| Intercompany Payables | — | 493,377 | — | (493,377) | — |
| Deferred Income Taxes Payable | (2,705) | 134,903 | — | — | 132,198 |
| Derivatives | — | 10,749 | — | — | 10,749 |
| Reserve for Future Abandonment Costs | — | 7,555 | — | — | 7,555 |
| Liabilities of Discontinued Operations | 45,156 | 66,502 | 323,117 | — | 434,775 |
| Minority Interest in Discontinued Operations | — | — | — | 311,306 | 311,306 |
| Total liabilities | 546,476 | 830,000 | 323,117 | (182,071) | 1,517,522 |
| Stockholders' Equity | 917,990 | 539,980 | 683,223 | (1,249,020) | 892,173 |
| Total liabilities and stockholders' equity | \$ 1,464,466 | \$ 1,369,980 | \$ 1,006,340 | \$ (1,431,091) | \$ 2,409,695 |

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Balance Sheet:

As of December 31, 2007

| | Comstock Resources | Guarantor Subsidiaries | Non-Guarantor Subsidiaries (In thousands) | Eliminating Entries | Consolidated |
|------------------------------|-----------------------|---------------------------|---|------------------------|--------------|
| Assets: | | | | | |
| Cash and Cash | | | — | | |
| Equivalents | \$ — | \$ 5,565 | \$ — | \$ — | \$ 5,565 |
| Accounts Receivable | — | 48,651 | — | — | 48,651 |
| Other Current Assets | 1,546 | 2,441 | — | — | 3,987 |
| Total current assets | 1,546 | 56,657 | — | — | 58,203 |
| Net property and | | | | | |
| equipment | 3,222 | 1,307,337 | — | — | 1,310,559 |
| Investment in | | | | | |
| subsidiaries | 447,473 | — | — | (447,473) | — |
| Intercompany | | | | | |
| receivables | 674,688 | — | — | (674,688) | — |
| Other assets | 3,943 | — | — | — | 3,943 |
| Assets of Discontinued | | | | | |
| Operations | 360,103 | — | 956,636 | (335,057) | 981,682 |
| Total assets | \$ 1,490,975 | \$ 1,363,994 | \$ 956,636 | \$ (1,457,218) | \$ 2,354,387 |
| Liabilities and | | | | | |
| Stockholders' Equity: | | | | | |
| Accounts Payable | \$ 17 | \$ 71,562 | \$ — | \$ — | \$ 71,579 |
| Accrued Expenses | 10,698 | 1,190 | — | — | 11,888 |
| Total current liabilities | 10,715 | 72,752 | — | — | 83,467 |
| Long-term Debt | 680,000 | — | — | — | 680,000 |
| Intercompany Payables | — | 674,688 | — | (674,688) | — |
| Deferred Income Taxes | | | | | |
| Payable | (2,979) | 95,067 | — | — | 92,088 |
| Reserve for Future | | | | | |
| Abandonment Costs | — | 7,512 | — | — | 7,512 |
| Liabilities Of | | | | | |
| Discontinued Operations | 31,595 | 66,502 | 354,138 | — | 452,235 |
| Minority Interest in | | | | | |
| Discontinued Operations | — | — | — | 267,441 | 267,441 |
| Total liabilities | 719,331 | 916,521 | 354,138 | (407,247) | 1,582,743 |
| Stockholders' Equity | 771,644 | 447,473 | 602,498 | (1,049,971) | 771,644 |
| Total liabilities and | | | | | |
| stockholders' equity | \$ 1,490,975 | \$ 1,363,994 | \$ 956,636 | \$ (1,457,218) | \$ 2,354,387 |

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Statement of Operations:

| | Three Months Ended June 30, 2008 | | | | | | | | | |
|---|----------------------------------|----------|---------------------------|-----------|---|--------|------------------------|-----------|--------------|-----------|
| | Comstock Resources | | Guarantor Subsidiaries | | Non-Guarantor Subsidiaries (In thousands) | | Eliminating Entries | | Consolidated | |
| Revenues: | | | | | | | | | | |
| Oil and gas sales | \$ | — | \$ | 172,022 | \$ | — | \$ | — | \$ | 172,022 |
| Gain on sale of assets | | — | | 21,444 | | — | | — | | 21,444 |
| Operating expenses: | | | | | | | | | | |
| Oil and gas operating | | — | | 23,362 | | — | | — | | 23,362 |
| Exploration | | — | | — | | — | | — | | — |
| Depreciation, depletion and amortization | | 141 | | 44,281 | | — | | — | | 44,422 |
| General and administrative, net | | 9,483 | | (2,561) | | — | | — | | 6,922 |
| Total operating expenses | | 9,624 | | 65,082 | | — | | — | | 74,706 |
| Operating income from continuing operations | | (9,624) | | 128,384 | | — | | — | | 118,760 |
| Other income (expenses): | | | | | | | | | | |
| Interest income | | 5,316 | | 205 | | — | | (5,316) | | 205 |
| Other income | | — | | 36 | | — | | — | | 36 |
| Interest expense | | (8,546) | | (5,316) | | — | | 5,316 | | (8,546) |
| Total other income (expenses) | 776 | (3,230) | | (5,075) | | — | | — | | (8,305) |
| Income from continuing operations before income taxes and equity in earnings | | (12,854) | | 123,309 | | — | | — | | 110,455 |
| Equity in earnings of subsidiaries | | 79,462 | | — | | — | | (79,462) | | — |
| Provision for income taxes | | 3,820 | | (43,847) | | — | | — | | (40,027) |
| Income from continuing operations | 70,4 | 70,428 | | 79,462 | | — | | (79,462) | | 70,428 |
| Income from discontinuing operations after income taxes and minority interest | | 12,199 | | — | | 39,768 | | (39,768) | | 12,199 |
| Net income | \$ | 82,627 | \$ | 79,462 | \$ | 39,768 | \$ | (119,230) | \$ | 82,627 |

| | Three Months Ended June 30, 2007 | | | | | |
|---------------------|----------------------------------|---------------------------|---|------------------------|--------------|-----------|
| | Comstock Resources | Guarantor Subsidiaries | Non-Guarantor Subsidiaries (In thousands) | Eliminating Entries | Consolidated | |
| Revenues: | | | | | | |
| Oil and gas sales | \$ — | \$ 83,160 | \$ — | \$ — | \$ — | \$ 83,160 |
| Operating expenses: | | | | | | |

Edgar Filing: COMSTOCK RESOURCES INC - Form 10-Q

| | | | | | |
|---|-----------|-----------|-----------|-------------|-----------|
| Oil and gas operating | — | 17,624 | — | — | 17,624 |
| Exploration | — | 1,878 | — | — | 1,878 |
| Depreciation, depletion and amortization | 114 | 30,134 | — | — | 30,248 |
| General and administrative, net | 7,993 | (2,405) | — | — | 5,588 |
| Total operating expenses | 8,107 | 47,231 | | | 55,338 |
| Operating income from continuing operations | (8,107) | 35,929 | — | — | 27,822 |
| Other income (expenses): | | | | | |
| Interest income | 1,443 | 197 | — | (1,443) | 197 |
| Other income | — | 39 | — | — | 39 |
| Interest expense | (7,775) | (1,443) | — | 1,443 | (7,775) |
| Total other income (expenses) |) | (6,332 | (1,207) | — | (7,539) |
| Income from continuing operations before income taxes and equity in earnings | (14,439) | 34,722 | — | — | 20,283 |
| Equity in earnings of subsidiaries | 20,450 | — | — | (20,450) | — |
| Provision for income taxes | 6,960 | (14,272) | — | — | (7,312) |
| Income from continuing operations | 12,971 | 20,450 | — | (20,450) | 12,971 |
| Income from discontinuing operations after income taxes and minority interest | 5,246 | — | 17,431 | (17,431) | 5,246 |
| Net income | \$ 18,217 | \$ 20,450 | \$ 17,431 | \$ (37,881) | \$ 18,217 |

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Statement of Operations:

| | Six Months Ended June 30, 2008 | | | | | |
|---|--------------------------------|---------------------------|---|------------------------|--|--------------|
| | Comstock Resources | Guarantor Subsidiaries | Non-Guarantor Subsidiaries (In thousands) | Eliminating Entries | | Consolidated |
| Revenues: | | | | | | |
| Oil and gas sales | \$ — | \$ 299,743 | \$ — | \$ — | | \$ 299,743 |
| Gain on sale of assets (loss) | — | 21,204 | — | — | | 21,204 |
| Operating expenses: | | | | | | |
| Oil and gas operating | — | 44,564 | — | — | | 44,564 |
| Exploration | — | 2,238 | — | — | | 2,238 |
| Depreciation, depletion and amortization | 275 | 85,652 | — | — | | 85,927 |
| General and administrative, net | 18,464 | (5,378) | — | — | | 13,086 |
| Total operating expenses | 18,739 | 127,076 | — | — | | 145,815 |
| Operating income from continuing operations | (18,739) | 193,871 | — | — | | 175,132 |
| Other income (expenses): | | | | | | |
| Interest income | 10,870 | 366 | — | (10,870) | | 366 |
| Other income | — | 58 | — | — | | 58 |
| Interest expense | (18,496) | (10,871) | — | 10,870 | | (18,497) |
| Total other income (expenses) | (7,626) | (10,447) | — | — | | (18,073) |
| Income from continuing operations before income taxes and equity in earnings | 776 (26,365) | 183,424 | — | — | | 157,059 |
| Equity in earnings of subsidiaries | 118,324 | — | — | (118,324) | | — |
| Provision for income taxes | 7,871 | (65,100) | — | — | | (57,229) |
| Income from continuing operations | 99,830 | 118,324 | — | (118,234) | | 99,830 |
| Income from discontinuing operations after income taxes and minority interest | 23,892 | — | 77,917 | (77,917) | | 23,892 |
| Net income | \$ 123,722 | \$ 118,324 | \$ 77,917 | \$ (196,241) | | \$ 123,722 |

| | Six Months Ended June 30, 2007 | | | | | |
|-----------|--------------------------------|---------------------------|---|------------------------|--|--------------|
| | Comstock Resources | Guarantor Subsidiaries | Non-Guarantor Subsidiaries (In thousands) | Eliminating Entries | | Consolidated |
| Revenues: | | | | | | |

Edgar Filing: COMSTOCK RESOURCES INC - Form 10-Q

| | | | | | | | | | | |
|---|----|----------|----|-----------|----|--------|----|-----------|----|-----------|
| Oil and gas sales | \$ | — | \$ | 153,007 | \$ | — | \$ | — | \$ | 153,007 |
| Operating expenses: | | | | | | | | | | |
| Oil and gas operating | | — | | 31,679 | | — | | — | | 31,679 |
| Exploration | | — | | 2,276 | | — | | — | | 2,276 |
| Depreciation, depletion and amortization | | 208 | | 57,400 | | — | | — | | 57,608 |
| General and administrative, net | | 16,530 | | (4,692) | | — | | — | | 11,838 |
| Total operating expenses | | 16,738 | | 86,663 | | — | | — | | 103,401 |
| Operating income from continuing operations | | (16,738) | | 66,344 | | — | | — | | 49,606 |
| Other income (expenses): | | | | | | | | | | |
| Interest income | | 1,381 | | 388 | | — | | (1,381) | | 388 |
| Other income | | | | 77 | | — | | — | | 77 |
| Interest expense | | (14,059) | | (1,382) | | — | | 1,381 | | (14,060) |
| Total other income (expenses) | | (12,678) | | (917) | | — | | — | | (13,595) |
| Income from continuing operations before income taxes and equity in earnings | | (29,416) | | 65,427 | | — | | — | | 36,011 |
| Equity in earnings of subsidiaries | | 42,795 | | — | | — | | (42,795) | | — |
| Provision for income taxes | | 8,991 | | (22,632) | | — | | — | | (13,641) |
| Income from continuing operations | | 22,370 | | 42,795 | | — | | (42,795) | | 22,370 |
| Income from discontinuing operations after income taxes and minority interest | | 8,405 | | — | | 29,304 | | (29,304) | | 8,405 |
| Net income | \$ | 30,775 | \$ | 42,795 | \$ | 29,304 | \$ | (72,099) | \$ | 30,775 |

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Statement of Cash Flows:

| | Comstock Resources | Six Months Ended June 30, 2008 | | Consolidated |
|--|-----------------------|--------------------------------|-------------------------------|--------------|
| | | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | |
| | | (In thousands) | | |
| Net Cash Provided by Operating | | | | |
| Activities from Continuing Operations | \$ (35,005) | \$ 235,735 | \$ — | \$ 200,730 |
| Cash Flows From Investing Activities: | | | | |
| Capital expenditures | (457) | (142,824) | — | (143,281) |
| Proceeds from sale of assets | — | 113,801 | — | 113,801 |
| Net Cash Used for Investing Activities | | | | |
| from Continuing Operations | (457) | (29,023) | — | (29,480) |
| Cash Flows From Financing | | | | |
| Activities: | | | | |
| Borrowings | 10,000 | — | — | 10,000 |
| Principal payments on debt | (195,000) | — | — | (195,000) |
| Advances to (from) parent | 203,568 | (203,568) | — | — |
| Proceeds from issuance of common | | | | |
| stock | 8,278 | — | — | 8,278 |
| Excess tax benefit from stock-based | | | | |
| compensation | 8,632 | — | — | 8,632 |
| Other | (16) | — | — | (16) |
| Net Cash Provided by Financing | | | | |
| Activities from Continuing Operations | 35,462 | (203,568) | — | (168,106) |
| Cash Flows from Discontinued | | | | |
| Operations: | | | | |
| Net cash flows provided by operating | | | | |
| activities | — | — | 180,143 | 180,143 |
| Net cash flows used for investing | | | | |
| activities | — | — | (117,013) | (117,013) |
| Net cash flows provided by (used for) | | | | |
| financing activities | — | — | (63,130) | (63,130) |
| Net Cash Flow from Discontinued | | | | |
| Operations | — | — | — | — |
| Net increase in cash and cash | | | | |
| equivalents | — | 3,144 | — | 3,144 |
| Cash and cash equivalents, beginning | | | | |
| of period | — | 5,565 | — | 5,565 |
| Cash and cash equivalents, end of | | | | |
| period | \$ — | \$ 8,709 | \$ — | \$ 8,709 |

| | Comstock Resources | Six Months Ended June 30, 2007 | | Consolidated |
|--|-----------------------|--------------------------------|-------------------------------|--------------|
| | | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | |

Edgar Filing: COMSTOCK RESOURCES INC - Form 10-Q

(In thousands)

| | | | | |
|--|-------------|------------|-----------|------------|
| Net Cash Provided by Operating Activities from Continuing Operations | \$ (19,153) | \$ 136,224 | \$ — | \$ 117,071 |
| Cash Flows From Investing Activities: | | | | |
| Capital expenditures | (681) | (205,123) | — | (205,804) |
| Net Cash Used for Investing Activities from Continuing Operations | (681) | (205,123) | — | (205,804) |
| Cash Flows From Financing Activities: | | | | |
| Borrowings | 114,000 | — | — | 114,000 |
| Advances to (from) parent | (94,838) | 94,838 | — | — |
| Proceeds from issuance of common stock | 138 | — | — | 138 |
| Excess tax benefit from stock-based compensation | 600 | — | — | 600 |
| Net Cash Provided by Financing Activities from Continuing Operations | 19,900 | 94,838 | — | 114,738 |
| Cash Flows from Discontinued Operations: | | | | |
| Net cash flows provided by operating activities | — | — | 98,254 | 98,254 |
| Net cash flows used for investing activities | (66) | — | (123,475) | (123,541) |
| Net cash flows provided by (used for) financing activities | — | — | 25,221 | 25,221 |
| Net Cash Flow used for Discontinued Operations | (66) | — | — | (66) |
| Net increase in cash and cash equivalents | — | 25,939 | — | 25,939 |
| Cash and cash equivalents, beginning of period | — | 1,228 | — | 1,228 |
| Cash and cash equivalents, end of period | \$ — | \$ 27,167 | \$ — | \$ 27,167 |

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

We have reviewed the consolidated balance sheet of Comstock Resources, Inc. (a Nevada corporation) and subsidiaries (the Company) as of June 30, 2008, and the related consolidated statements of operations for the three-month and six-month periods ended June 30, 2008 and 2007, the consolidated statement of stockholders' equity for the six months ended June 30, 2008, and the consolidated statements of cash flows for the six-month periods ended June 30, 2008 and 2007. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Comstock Resources, Inc. and subsidiaries as of December 31, 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended [not presented herein], and in our report dated February 28, 2008, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph regarding the Company's adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment, effective January 1, 2006. On April 30, 2008, the Company entered into a definitive agreement and plan of merger with Stone Energy Corporation, which resulted in Bois d'Arc Energy, Inc. being classified as discontinued operations, resulting in the revision of the December 31, 2007 consolidated balance sheet. We have not audited the revised consolidated balance sheet reflecting the reclassifications for discontinued operations.

/s/ Ernst & Young LLP

Dallas, Texas
August 8, 2008

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

This report contains forward-looking statements that involve risks and uncertainties that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those anticipated in our forward-looking statements due to many factors. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in this report and in our annual report filed on Form 10-K for the year ended December 31, 2007.

Discontinued Operations

Our offshore operations have historically been conducted through our subsidiary, Bois d'Arc Energy, Inc. ("Bois d'Arc Energy"). Bois d'Arc Energy has entered into a definitive merger agreement with Stone Energy Corporation ("Stone") in which Bois d'Arc Energy stockholders will exchange their shares of Bois d'Arc Energy common stock for a combination of cash and common shares of Stone. The merger agreement has been approved by the respective boards of directors of Bois d'Arc Energy and Stone, and the stockholders of Bois d'Arc Energy and Stone will be holding stockholder meetings to consider and vote upon the proposed merger on August 27, 2008. We have entered into a voting agreement with Stone in which among other matters we have agreed to vote our shares in favor of the merger. We believe it is highly likely that the stockholders of both companies will approve this merger and that this merger will close during the third quarter of 2008. Accordingly, we are presenting in Management's Discussion and Analysis of Financial Condition and Results of Operations the results of offshore operations of Bois d'Arc Energy as discontinued operations.

Results of Operations

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|-----------|---------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| | (In thousands, except per unit amounts) | | | |
| Net Production Data: | | | | |
| Natural Gas (Mmcf) | 13,682 | 9,215 | 26,812 | 17,850 |
| Oil (Mbbbls) | 268 | 255 | 511 | 506 |
| Natural Gas equivalent (Mmcfe) | 15,292 | 10,746 | 29,878 | 20,886 |
| Revenues: | | | | |
| Natural Gas sales | \$ 148,180 | \$ 68,849 | \$ 256,373 | \$ 126,642 |
| Hedging losses | (4,384) | — | (4,628) | — |
| Total natural gas sales including hedging | 143,796 | 68,849 | 251,745 | 126,642 |
| Oil sales | 28,226 | 14,311 | 47,998 | 26,365 |
| Total oil and gas sales | \$ 172,022 | \$ 83,160 | \$ 299,743 | \$ 153,007 |
| Expenses: | | | | |
| Oil and gas operating expenses(1) | \$ 23,362 | \$ 17,624 | \$ 44,564 | \$ 31,679 |
| Exploration expense | \$ — | \$ 1,878 | \$ 2,238 | \$ 2,276 |
| Depreciation, depletion and amortization | \$ 44,422 | \$ 30,248 | \$ 85,927 | \$ 57,608 |
| Average Sales Price: | | | | |
| Oil (per Bbl) | \$ 105.16 | \$ 56.10 | \$ 93.92 | \$ 52.10 |
| Natural gas (per Mcf) | \$ 10.83 | \$ 7.47 | \$ 9.56 | \$ 7.09 |

Edgar Filing: COMSTOCK RESOURCES INC - Form 10-Q

| | | | | | | | | |
|---|----|-------|----|------|----|-------|----|------|
| Natural gas including hedging (per Mcf) | \$ | 10.51 | \$ | 7.47 | \$ | 9.39 | \$ | 7.09 |
| Average equivalent (Mcfe) | \$ | 11.54 | \$ | 7.74 | \$ | 10.19 | \$ | 7.33 |
| Average equivalent including hedging (Mcfe) | \$ | 11.25 | \$ | 7.74 | \$ | 10.03 | \$ | 7.33 |
| Expenses (\$ per Mcfe): | | | | | | | | |
| Oil and gas operating(1) | \$ | 1.53 | \$ | 1.64 | \$ | 1.49 | \$ | 1.52 |
| Depreciation, depletion and amortization(2) | \$ | 2.89 | \$ | 2.80 | \$ | 2.87 | \$ | 2.75 |

(1) Includes lease operating costs and production and ad valorem taxes.

(2) Represents depreciation, depletion and amortization of oil and gas properties only.

Revenues –

Oil and gas sales from our continuing onshore properties increased \$88.8 million to \$172.0 million for the three months ended June 30, 2008 from \$83.2 million for the second quarter of 2007. This increase resulted from higher production and from higher crude oil and natural gas prices. Our production in the second quarter of 2008 increased to 15.3 Bcfe, a 42% increase over production of 10.7 Bcfe in the second quarter of 2007. The production increase was attributable to our development drilling activity and a producing property acquisition in South Texas which was completed in December 2007. Our average realized crude oil price increased by 87% and our average realized natural gas price increased by 41% in the second quarter of 2008 as compared to the second quarter of 2007. Our natural gas sales for the three months ended June 30, 2008 have been reduced by a loss of \$4.4 million from our hedging activities.

Oil and gas sales from our continuing onshore properties increased \$146.7 million to \$299.7 million for the six months ended June 30, 2008 from \$153.0 million for the first six months of 2007. Our production in the first six months of 2008 increased to 29.9 Bcfe or 43% higher than production of 20.9 Bcfe in the first six months of 2007. The production increase was attributable to our development drilling and the recent acquisition. Our average realized crude oil price increased by 80% and our average realized natural gas price increased by 32% in the first six months of 2008 as compared to the first six months of 2007.

The 2008 second quarter and six months financial results include a \$21.4 million gain on the sales of certain properties in East and South Texas for which we received net proceeds of \$113.8 million. The sales closed in June 2008.

Costs and Expenses -

Our oil and gas operating expenses, including production taxes, increased \$5.8 million (33%) to \$23.4 million in the second quarter of 2008 from \$17.6 million in the second quarter of 2007. Oil and gas operating expenses per equivalent Mcf produced for our continuing onshore operations decreased \$0.11 (7%) to \$1.53 in the second quarter of 2008 from \$1.64 in the second quarter of 2007. Oil and gas operating expenses also increased \$12.9 million (41%) to \$44.6 million in the first six months of 2008 from \$31.7 million in the first six months of 2007. Oil and gas operating expenses per Mcfe produced decreased \$0.03 to \$1.49 for the six months ended June 30, 2008 from \$1.52 for the same period in 2007. These increases in operating costs reflect our higher production and the impact of higher oil and natural gas prices on production and severance taxes.

Exploration expense of \$2.2 million for the six months ended June 30, 2008 relates primarily to an exploratory dryhole drilled in South Texas. Exploration expense in the first six months of 2007 of \$2.3 million is mainly associated with exploratory dry holes drilled in Mississippi.

Depreciation, depletion and amortization ("DD&A") increased \$14.2 million (47%) to \$44.4 million in the second quarter of 2008 from DD&A expense of \$30.2 million in the second quarter of 2007. Our DD&A per equivalent Mcf produced increased \$0.09 to \$2.89 for the three months ended June 30, 2008 from \$2.80 for the three months ended June 30, 2007. DD&A for the first six months of 2008 increased \$28.3 million (49%) to \$85.9 million from \$57.6 million for the six months ended June 30, 2007. Our DD&A rate per Mcfe for the first six months of 2008 of \$2.87 increased \$0.12 (4%) above the DD&A rate of \$2.75 for the first six months of 2007. These increases primarily reflect our higher production during 2008 and the higher capitalized costs associated with our drilling program and our acquisition completed in 2007.

General and administrative expense, which is reported net of overhead reimbursements, increased by \$1.3 million to \$6.9 million for the second quarter of 2008 as compared to general and administrative expense of \$5.6 million for the second quarter of 2007. Included in general and administrative expense is stock-based compensation of \$3.1 million

and \$2.6 million for the three months ended June 30, 2008 and 2007, respectively. For the first six months of 2008, general and administrative expense increased to \$13.1 million from \$11.8 million for the six months ended June 30, 2007. Included in general and administrative expense is stock-based compensation of \$5.7 million and \$5.3 million for the six months ended June 30, 2008 and 2007, respectively. Increases in general and administrative expenses in 2008 primarily reflect the additional personnel we have added.

Interest expense increased \$0.7 million (10%) to \$8.5 million for the second quarter of 2008 from interest expense of \$7.8 million in the second quarter of 2007. The increase was primarily due to increased borrowings under our bank credit facility during the second quarter of 2008 which was partially offset by lower interest rates. The average borrowings outstanding increased to \$494.3 million during the second quarter of 2008 as compared to \$261.3 million in the second quarter of 2007. The average interest rate we were charged on the outstanding borrowings under our credit facility decreased to 4.2% in the second quarter of 2008 as compared to 6.6% in the second quarter of 2007. Interest expense for the six months ended June 30, 2008 increased \$4.4 million (32%) to \$18.5 million from \$14.1 million for the six months ended June 30, 2007. The increase is attributable to higher average borrowings under the bank credit facility which was partially offset by lower interest rates. Average borrowings outstanding increased to \$504.0 million during the first six months of 2008 as compared to \$227.6 million for the six months ended June 30, 2007. The average interest rate under our bank credit facility decreased to 4.7% in the first six months of 2008 as compared to 6.5% in the first six months of 2007.

Income tax expense related to continuing operations increased by \$32.7 million to \$40.0 million for the three months ended June 30, 2008 as compared to \$7.3 million for the three months ended June 30, 2007. Income tax expense related to continuing operations increased \$43.6 to \$57.2 million for the six months ended June 30, 2008 from \$13.6 million for the first six months of 2007. Higher income tax expenses in 2008 are primarily due to our higher income from continuing operations.

We reported income from continuing operations of \$70.4 million for the three months ended June 30, 2008, as compared to \$13.0 million for the three months ended June 30, 2007. The income per diluted share from continuing operations for the second quarter of 2008 was \$1.55 on weighted average diluted shares outstanding of 45.4 million as compared to \$0.29 for the second quarter of 2007 on weighted average diluted shares outstanding of 44.4 million. Net income from continuing operations for the six months ended June 30, 2008 was \$99.8 million, as compared to net income from continuing operations of \$22.4 million for the six months ended June 30, 2007. Income per share from continuing operations for the six months ended June 30, 2008 was \$2.21 on weighted average diluted shares outstanding of 45.2 million as compared to net income per share from continuing operations of \$0.51 on weighted average diluted shares outstanding of 44.3 million for the six months ended June 30, 2007. The higher net income in 2008 results from higher oil and gas sales reflecting increased production and significantly higher oil and natural gas prices received. Higher revenues were only partially offset by higher operating costs, DD&A expense and general and administrative expense.

Income from discontinued operations of \$12.2 million in the three months ended June 30, 2008 was \$7.0 million (133%) higher than income from discontinued operations during the three months ended June 30, 2007. Income from discontinued operations increased \$15.5 million (184%) to \$23.9 million during the first six months of 2008 as compared to \$8.4 million for the first six months of 2007. The increases in income from discontinued operations in 2008 reflect the higher oil and gas prices in 2008 offset in part by higher operating and exploration expenses of the offshore operations.

Liquidity and Capital Resources

Funding for our activities has historically been provided by our operating cash flow, debt or equity financings or asset dispositions. For the six months ended June 30, 2008, our primary sources of funds were net cash flow from continuing operations of \$200.7 million, and net proceeds from asset sales of \$113.8 million. Our net cash flow from continuing operating activities increased \$83.6 million (71%) in the first six months of 2008 from \$117.1 million for the six months ended June 30, 2007. This increase is primarily due to the higher revenues we had in the first six months of 2008 driven by the 43% increase in our oil and gas production and higher oil and natural gas prices.

Our primary needs for capital, in addition to funding our ongoing operations, relate to the acquisition, development and exploration of our oil and gas properties and the repayment of our debt. In the first six months of 2008, we incurred capital expenditures of \$145.9 million primarily for our acquisition, development and exploration activities. We used the proceeds from the asset sales and operating cash flow not used to fund our capital expenditures to reduce borrowings outstanding under our bank credit facility by \$185.0 million during the six months ended June 30, 2008.

The following table summarizes our capital expenditure activity, on an accrual basis, for the six months ended June 30, 2008 and 2007:

| | Six Months Ended June 30, | |
|--|---------------------------|------------|
| | 2008 | 2007 |
| | (In thousands) | |
| Acquisitions of producing oil and gas properties | \$ — | \$ 31,965 |
| Leasehold costs | 21,474 | 4,741 |
| Development drilling | 110,369 | 154,522 |
| Exploratory drilling | 2,708 | 7,589 |
| Other development | 11,302 | 3,318 |
| | 145,853 | 202,135 |
| Other | 491 | 678 |
| | \$ 146,344 | \$ 202,813 |

The timing of most of our capital expenditures is discretionary because we have no material long-term capital expenditure commitments except for commitments for contract drilling services. Consequently, we have a significant degree of flexibility to adjust the level of our capital expenditures as circumstances warrant. As of June 30, 2008 we have contracted for the services of drilling rigs through January 2012 at an aggregate cost of \$126.4 million. We have obligations to incur future payments for dismantlement, abandonment and restoration costs of oil and gas properties. These payments are currently estimated to be incurred primarily after 2011. We record a separate liability for the fair value of these asset retirement obligations which totaled \$7.6 million as of June 30, 2008.

We spent \$145.9 million and \$170.2 million on our development and exploration activities during the six months ended June 30, 2008 and 2007, respectively. We expect to spend approximately \$410.0 million for development and exploration projects during 2008. Development and exploration activities are funded primarily with operating cash flow and with borrowings under our bank credit facility.

In June, 2008 we sold certain oil and gas producing properties in East and South Texas for net proceeds of \$113.8 million. We used the proceeds to repay outstanding debt under our bank credit facility.

We have a \$850.0 million bank credit facility with the Bank of Montreal, as the administrative agent. The credit facility is a five-year revolving credit commitment that matures on December 15, 2011. The credit facility is subject to borrowing base availability, which is redetermined semiannually based on the banks' estimates of the future net cash flows of our oil and natural gas properties. The borrowing base may be affected by the performance of our properties and changes in oil and natural gas prices. As of June 30, 2008 the borrowing base was \$590.0 million, \$270.0 million of which was available. Indebtedness under the bank credit facility is secured by substantially all of our wholly-owned subsidiaries' oil and gas properties and is guaranteed by all of our wholly-owned subsidiaries. Borrowings under the credit facility bear interest, based on the utilization of the borrowing base, at our option of either LIBOR plus 1.0% to 1.75% or the base rate (which is the higher of the prime rate or the federal funds

rate) plus 0% to 0.5%. A commitment fee of 0.25% to 0.375% based on the utilization of the borrowing base is payable on the unused borrowing base. The credit facility contains covenants that, among other things, restrict the payment of cash dividends in excess of \$40.0 million, limit the amount of consolidated debt that we may incur and limit our ability to make certain loans and investments. The only financial covenants are the maintenance of a current ratio and maintenance of a minimum tangible net worth. We were in compliance with these covenants as of June 30, 2008. We also have \$175.0 million of 6 % senior notes due March 1, 2012, with interest payable semiannually on each March 1 and June 1. The notes are unsecured obligations and are guaranteed by all of our wholly owned subsidiaries.

We believe that our cash flow from operations and available borrowings under our bank credit facilities will be sufficient to fund our operations and future growth as contemplated under our current business plan. However, if our plans or assumptions change or if our assumptions prove to be inaccurate, we may be required to seek additional capital. We cannot provide any assurance that we will be able to obtain such capital, or if such capital is available, that we will be able to obtain it on terms acceptable to us.

Critical Accounting Policies

The information included in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" in our annual report filed on Form 10-K for the year ended December 31, 2007 is incorporated herein by reference.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). This statement establishes a framework for fair value measurements in the financial statements by providing a single definition of fair value, provides guidance on the methods used to estimate fair value and increases disclosures about estimates of fair value. We adopted SFAS 157 and its related amendments for financial assets and liabilities effective as of January 1, 2008. See Note 2 to the consolidated financial statements. Adoption of SFAS 157 had no impact on the carrying values of our assets and liabilities. SFAS 157 will be effective for non-financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2008.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" ("SFAS 141R") which requires measurements based on fair value as determined under the provisions of SFAS 157 and is effective for financial statements issued for fiscal years beginning after December 15, 2008. SFAS 141R establishes accounting and reporting standards for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. This statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS 141R will impact the accounting and disclosures for any business combinations we engage in after January 1, 2009. However, the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate after that date.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities — An Amendment of FASB Statement No. 133" ("SFAS 161"). This standard applies to derivative instruments, nonderivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133. SFAS 161 does not change the accounting for derivatives and hedging activities, but requires enhanced disclosures concerning the effect on the financial statements from their use. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Currently, we do not have any instruments that would be impacted by this standard.

In June 2008, the FASB issued FASB Staff Position ("FSP") EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." Under the provisions of this standard, unvested awards of share-based payments with rights to receive dividends or dividend equivalents are considered "participating securities" for purposes of calculating earnings per share. As a result, these participating securities will be included in the weighted average number of shares outstanding used to determine basic earnings per share. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior period earnings per share data presented in financial reports after the effective date shall be adjusted retrospectively to conform with the provisions of this FSP. Early application is not permitted. Currently, we do not anticipate that adoption of the FSP will have a significant impact on our previously reported basic earnings per share amounts.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Oil and Natural Gas Prices

Our financial condition, results of operations and capital resources are highly dependent upon the prevailing market prices of oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors, some of which are beyond our control. Factors influencing oil and natural gas prices include the level of global demand for crude oil, the foreign supply of oil and natural gas, the establishment of and compliance with production quotas by oil exporting countries, weather conditions that determine the demand for natural gas, the price and availability of alternative fuels and overall economic conditions. It is impossible to predict future oil and natural gas prices with any degree of certainty. Sustained weakness in oil and natural gas prices may adversely affect our financial condition and results of operations, and may also reduce the amount of oil and natural gas reserves that we can produce economically. Any reduction in our oil and natural gas reserves, including reductions due to price fluctuations, can have an adverse effect on our ability to obtain capital for our exploration and development activities. Similarly, any improvements in oil and natural gas prices can have a favorable impact on our financial condition, results of operations and capital resources. Based on our oil and natural gas production for the six months ended June 30, 2008, a \$1.00 change in the price per barrel of oil would have resulted in a change in our cash flow for such period by approximately \$0.5 million and a \$1.00 change in the price per Mcf of natural gas would have changed our cash flow by approximately \$23.2 million.

We hedge a portion of our price risks associated with our natural gas sales. As of June 30, 2008, our outstanding natural gas price swap agreements had a fair value loss of \$40.1 million. A change in the fair value of our natural gas swaps that would result from a 10% change in commodities prices at June 30, 2008 would be \$7.1 million. Such a change in fair value could be a gain or a loss depending on whether prices increase or decrease.

Because our swap agreements have been designated as hedge derivatives, changes in their fair value generally are reported as a component of accumulated other comprehensive loss until the related sale of production occurs. At that time, the realized hedge derivative gain or loss is transferred to oil and gas sales in the consolidated income statement. None of our derivative contracts have margin requirements or collateral provisions that could require funding prior to the scheduled cash settlement date.

Interest Rates

At June 30, 2008, we had total long-term debt of \$495.0 million. Of this amount, \$175.0 million bears interest at a fixed rate of 6 %. We had \$320.0 million outstanding under our bank credit facilities, which bear interest at a fluctuating rate that is linked to LIBOR or the corporate base rate, at our option. Any increases in these interest rates can have an adverse impact on our results of operations and cash flow. Based on borrowings outstanding at June 30, 2008, a 100 basis point change in interest rates would change our interest expense for the six month period ended June 30, 2008 by approximately \$1.6 million.

ITEM 4: CONTROLS AND PROCEDURES

As of June 30, 2008, we carried out an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2008 to provide reasonable assurance that information required to be disclosed by us in the reports filed or submitted by us under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that

information required to be disclosed by us is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. There were no changes in our internal controls over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during the quarter ended June 30, 2008, that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II — OTHER INFORMATION

ITEMSUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

4:

- (a) Our annual meeting of stockholders was held in Frisco, Texas at 10:00 a.m., local time, on May 13, 2008.
- (b) Proxies for the meeting were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934, as amended. There was no solicitation in opposition to the nominees listed in the proxy statement for election as Class B directors and such nominees were elected.
- (c) Out of a total 45,550,245 shares of our common stock outstanding and entitled to vote, 41,434,802 shares were present at the meeting in person or by proxy, representing approximately 91% of the outstanding shares. Matters voted upon at the meeting were as follows:

- (i) Two Class B directors were reelected to our board of directors. The vote tabulation was as follows:

| Nominee | For | Withheld |
|-----------------|------------|-----------|
| M. Jay Allison | 40,111,548 | 1,323,254 |
| David W. Sledge | 40,107,530 | 1,327,272 |

Our other directors whose term of office as a director continued after the meeting are as follows:

| Class A Directors | Class C Directors |
|--------------------|-------------------|
| Cecil E. Martin | Roland O. Burns |
| Nancy E. Underwood | David K. Lockett |

- (ii) The appointment of Ernst & Young LLP as our independent registered public accounting firm for 2008 was ratified by a vote of 41,361,213 shares for, 59,620 shares against and 13,969 shares abstaining.

ITEMEXHIBITS

6:

| Exhibit No. | Description |
|-------------|---|
| 15.1* | Awareness Letter of Ernst & Young LLP. |
| 31.1* | Section 302 Certification of the Chief Executive Officer. |
| 31.2* | Section 302 Certification of the Chief Financial Officer. |
| 32.1* | Certification for the Chief Executive Officer as required by Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification for the Chief Financial Officer as required by Section 906 of the Sarbanes-Oxley Act of 2002. |

* Filed herewith.

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.

COMSTOCK RESOURCES, INC.

Date: August 8, 2008

/s/ M. JAY ALLISON

M. Jay Allison, Chairman, President and Chief
Executive Officer (Principal Executive Officer)

Date: August 8, 2008

/s/ ROLAND O. BURNS

Roland O. Burns, Senior Vice President,
Chief Financial Officer, Secretary, and Treasurer
(Principal Financial and Accounting Officer)

