

COMSTOCK RESOURCES INC

Form 10-Q/A

December 14, 2004

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q/A**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For The Quarter Ended September 30, 2004**

OR

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

**Commission File No. 0-16741**

**COMSTOCK RESOURCES, INC.**

(Exact name of registrant as specified in its charter)

<b>NEVADA</b>	<b>94-1667468</b>
(State or other jurisdiction of incorporation or organization)	(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 filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the registrant's common stock, par value \$.50, as of November 9, 2004 was 34,776,742.

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**COMSTOCK RESOURCES, INC.**

**QUARTERLY REPORT**

**For The Quarter Ended September 30, 2004**

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**EXPLANATORY NOTE**

Comstock Resources, Inc. has determined that it should include under Item 1 of its Quarterly Report on Form 10-Q for the period ended September 30, 2004 (the Quarterly Report ), the financial statements of its newly formed non wholly-owned subsidiary guarantor, Bois d Arc Energy, LLC, for the same period covered by the Quarterly Report. Accordingly, this Amendment to the Quarterly Report being filed by Comstock Resources, Inc. includes such financial statements of Bois d Arc Energy, LLC. Bois d Arc Energy, LLC became a guarantor of Comstock Resources, Inc. 6 % Senior Notes due 2012 on July 16, 2004. In addition, Item 2 of the Quarterly Report is being amended to correct several typographical errors and to reclass \$515,000 of compensation expense at Bois d Arc Energy from Minority Interests Liability to Accrued Expenses to conform the presentation in the consolidated financial statement of Comstock Resources, Inc. to the presentations in Bois d Arc Energy, LLC and is presented in its entirety, as amended.

Other than the foregoing and the new certifications of the Chief Executive Officer and Chief Financial Officer of the registrant, as required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, no other changes have been made to the Quarterly Report. This Amendment does not reflect events occurring after the initial filing of the original Quarterly Report filed on November 9, 2004, or modify or update the disclosures presented in the original Quarterly Report, except as discussed above.

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**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

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Table of Contents**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)****ASSETS**

	<b>September 30, 2004</b>	<b>December 31, 2003</b>
	<b>(In thousands)</b>	
Cash and Cash Equivalents	\$ 29,079	\$ 5,343
Accounts Receivable:		
Oil and gas sales	25,990	21,868
Joint interest operations	14,799	9,524
Other Current Assets	5,616	4,802
	<hr/>	<hr/>
Total current assets	75,484	41,537
Property and Equipment:		
Unevaluated oil and gas properties	17,398	18,075
Oil and gas properties, successful efforts method	1,330,997	1,052,564
Other	4,997	4,047
Accumulated depreciation, depletion and amortization	(490,747)	(376,000)
	<hr/>	<hr/>
Net property and equipment	862,645	698,686
Other Assets	12,600	6,133
	<hr/>	<hr/>
	\$ 950,729	\$ 746,356
	<hr/>	<hr/>

**LIABILITIES AND STOCKHOLDERS EQUITY**

Current Portion of Long-Term Debt	\$ 975	\$ 623
Accounts Payable	49,918	38,713
Accrued Expenses	13,795	10,561
	<hr/>	<hr/>
Total current liabilities	64,688	49,897
Long-Term Debt, less current portion	381,000	306,000
Deferred Taxes Payable	91,911	81,629
Reserve for Future Abandonment Costs	28,406	19,174
Minority Interests	52,384	
Stockholders Equity:		

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Common stock-\$0.50 par, 50,000,000 shares authorized, 34,776,742 and 34,308,861 shares outstanding at September 30, 2004 and December 31, 2003, respectively	17,388	17,154
Additional paid-in capital	168,911	166,242
Retained earnings	146,041	115,032
Deferred compensation-restricted stock grants		(8,772)
	<u>          </u>	<u>          </u>
Total stockholders equity	332,340	289,656
	<u>          </u>	<u>          </u>
	\$ 950,729	\$ 746,356
	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these statements.

Table of Contents**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>(In thousands, except per share amounts)</b>			
Oil and gas sales	\$ 78,353	\$ 56,866	\$ 205,622	\$ 182,603
Operating expenses:				
Oil and gas operating	15,409	11,812	40,515	33,708
Exploration	9,400	1,225	14,579	3,366
Depreciation, depletion and amortization	20,503	15,163	52,040	44,867
General and administrative, net	3,665	1,508	9,637	4,983
Total operating expenses	48,977	29,708	116,771	86,924
Income from operations	29,376	27,158	88,851	95,679
Other income (expenses):				
Interest income	46	16	80	59
Other income	43	73	129	164
Interest expense	(4,803)	(7,370)	(15,594)	(22,648)
Loss on early extinguishment of debt			(19,599)	
Loss on derivatives	(553)		(553)	
Formation costs	(1,641)		(1,641)	
Minority interests in net income before income taxes	(3,221)		(3,221)	
Total other income (expenses)	(10,129)	(7,281)	(40,399)	(22,425)
Income before income taxes and cumulative effect of change in accounting principle	19,247	19,877	48,452	73,254
Provision for income taxes	(6,929)	(6,957)	(17,443)	(25,639)
Income before cumulative effect of change in accounting principle	12,318	12,920	31,009	47,615



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Cumulative effect of change in accounting principle, net of income taxes				675
Net income	<u>12,318</u>	<u>12,920</u>	<u>31,009</u>	<u>48,290</u>
Preferred stock dividends	<u>          </u>	<u>          </u>	<u>          </u>	<u>(573)</u>
Net income attributable to common stock	<u>\$ 12,318</u>	<u>\$ 12,920</u>	<u>\$ 31,009</u>	<u>\$ 47,717</u>
Net income per share before cumulative effect of change in accounting principle:				
Basic	<u>\$ 0.36</u>	<u>\$ 0.38</u>	<u>\$ 0.91</u>	<u>\$ 1.50</u>
Diluted	<u>\$ 0.34</u>	<u>\$ 0.36</u>	<u>\$ 0.86</u>	<u>\$ 1.36</u>
Net income per share:				
Basic	<u>\$ 0.36</u>	<u>\$ 0.38</u>	<u>\$ 0.91</u>	<u>\$ 1.52</u>
Diluted	<u>\$ 0.34</u>	<u>\$ 0.36</u>	<u>\$ 0.86</u>	<u>\$ 1.38</u>
Weighted average common and common stock equivalent shares outstanding:				
Basic	<u>34,204</u>	<u>33,562</u>	<u>34,091</u>	<u>31,336</u>
Diluted	<u>36,113</u>	<u>35,398</u>	<u>36,037</u>	<u>34,964</u>

The accompanying notes are an integral part of these statements.

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## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**  
**For the Nine Months Ended September 30, 2004**  
**(Unaudited)**

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Deferred Compensation- Restricted Stock Grants</b>	<b>Total</b>
	(In thousands)				
Balance at December 31, 2003	\$ 17,154	\$ 166,242	\$ 115,032	\$ (8,772)	\$ 289,656
Adoption of SFAS 123		(8,772)		8,772	
Value of stock options issued for exploration projects, net of deferred taxes		3,672			3,672
Stock-based compensation		3,494			3,494
Exercise of stock options	234	4,275			4,509
Net income			31,009		31,009
Balance at September 30, 2004	<u>\$ 17,388</u>	<u>\$ 168,911</u>	<u>\$ 146,041</u>	<u>\$</u>	<u>\$ 332,340</u>

The accompanying notes are an integral part of these statements.

Table of Contents**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(In thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 31,009	\$ 48,290
Adjustments to reconcile net income to net cash provided by operating activities:		
Dry hole costs and lease impairments	15,831	2,248
Depreciation, depletion and amortization	52,040	44,867
Stock-based compensation	3,494	239
Deferred income taxes	13,054	25,639
Debt issuance costs amortization	739	900
Loss on derivatives	553	
Loss on early extinguishment of debt	19,599	
Minority interests in net income before income taxes	3,221	
Cumulative effect of change in accounting principle, net of income taxes		(675)
	<u>139,540</u>	<u>121,508</u>
(Increase) decrease in accounts receivable	12,583	(6,583)
(Increase) decrease in other current assets	(802)	213
Increase (decrease) in accounts payable and accrued expenses	(26,861)	3,971
	<u>124,460</u>	<u>119,109</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures and acquisitions	(111,513)	(62,159)
Acquisition deposit	(6,317)	
Formation of Bois d Arc Energy, net of cash acquired	(39,493)	
	<u>(157,323)</u>	<u>(62,159)</u>

## CASH FLOWS FROM FINANCING ACTIVITIES:

Borrowings	228,546	16,401
Proceeds from issuance of senior notes	175,000	
Debt issuance costs	(5,963)	
Principal payments on debt	(344,067)	(70,659)
Proceeds from issuance of common stock	3,083	1,971
Dividends paid on preferred stock		(573)
	<u>          </u>	<u>          </u>
Net cash used for financing activities	56,599	(52,860)
	<u>          </u>	<u>          </u>
Net decrease in cash and cash equivalents	23,736	4,090
Cash and cash equivalents, beginning of period	5,343	1,682
	<u>          </u>	<u>          </u>
Cash and cash equivalents, end of period	\$ 29,079	\$ 5,772
	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these statements.

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**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2004**

**(Unaudited)**

**(1) 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 September 30, 2004 and the related results of operations and cash flows for the nine months ended September 30, 2004 and 2003.

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, 2003.

The results of operations for the nine months ended September 30, 2004 are not necessarily an indication of the results expected for the full year.

***Reclassifications***

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

***Formation of Bois d'Arc Energy***

In July 2004, Bois d'Arc Energy, LLC (Bois d'Arc Energy) was formed by Comstock Offshore, LLC (Comstock Offshore), an indirect wholly-owned subsidiary of the Company and Bois d'Arc Resources, (Bois d'Arc Resources) Ltd., Bois d'Arc Offshore, Ltd. and certain participants in their exploration activities (collectively, the Bois d'Arc Participants) to replace a joint exploration venture established in 1997 by Comstock Offshore and Bois d'Arc Resources to explore for oil and natural gas in the Gulf of Mexico. Under the joint exploration venture, Bois d'Arc Resources was responsible for generating exploration prospects in the Gulf of Mexico utilizing 3-D seismic data and their extensive geological expertise in the region. Comstock Offshore advanced the funds for the acquisition of 3-D seismic data and leases. Comstock Offshore was reimbursed for all advanced costs and was entitled to a non-promoted working interest in each prospect generated. For each successful discovery well drilled pursuant to the joint exploration venture, Comstock issued to the two principals of Bois d'Arc Resources warrants exercisable for the purchase of shares of Comstock's common stock.

In July 2004, each of the Bois d'Arc Participants and Comstock Offshore contributed to Bois d'Arc Energy substantially all of their Gulf of Mexico related assets and assigned their related liabilities, including certain debt, in exchange for equity interests in Bois d'Arc Energy. The equity interests issued in exchange for the contributions were

determined by using a valuation of the properties contributed by the particular contributor relative to the value of the properties contributed by all contributors. Comstock Offshore contributed its interests in its Gulf of Mexico properties and assigned to Bois d Arc Energy \$83.2 million of related debt in exchange for an approximately 59.9% ownership interest in Bois d Arc Energy (29,935,761 LLC units out of 50,000,000 LLC units issued). The Bois d Arc Participants contributed their offshore oil and natural gas properties as well as ownership of Bois d Arc Offshore, Ltd., the operator of the properties, and assigned to Bois d Arc Energy \$28.2 million of related liabilities in exchange for an approximately

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40.1% aggregate ownership interest in Bois d' Arc Energy. The Bois d' Arc Participants also received \$27.6 million in cash to equalize the amount that Comstock Offshore's debt exceeded its proportional share of the liabilities assigned. Bois d' Arc Energy also reimbursed Comstock Offshore \$12.7 million and Bois d' Arc \$0.8 million for advances made under the exploration joint venture for undrilled prospects.

The following table sets forth the assets contributed and the liabilities assumed on the date of the formation of Bois d' Arc Energy:

	<b>Comstock Offshore</b>	<b>Minority Interests</b>	<b>Combined</b>
	<b>(In thousands)</b>		
Cash and cash equivalents	\$ 6	\$ 17,024	\$ 17,030
Other current assets		21,992	21,992
Property and equipment, net	362,959	113,262	476,221
Current liabilities and bank loan		(66,788)	(66,788)
Payable to Comstock Resources	(83,177)		(83,177)
Reserve for future abandonment	(18,458)	(7,985)	(26,443)
Cash distributed	(12,742)	(28,342)	(41,084)
	<hr/>	<hr/>	<hr/>
Net contribution	\$248,588	\$ 49,163	\$297,751
	<hr/>	<hr/>	<hr/>

The accompanying consolidated financial statements include the operations of Bois d' Arc Energy beginning in July 2004 when Bois d' Arc Energy was formed. The 40.1% of Bois d' Arc Energy not owned by Comstock has been reflected in the accompanying consolidated financial statements as a minority interests liability and as minority interests in net income. The following table sets forth the changes in the minority interests balance attributable to the 40.1% of Bois d' Arc Energy not owned by Comstock:

	<b>Three Months and Nine Months Ended September 30, 2004</b>
	<b>(In thousands)</b>
Contributions of assets and assumption of liabilities	\$ 49,163

by minority interest owners

Minority interests in net income of Bois d Arc Energy	<u>3,221</u>
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Minority interests liability	<u>\$ 52,384</u>
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Table of Contents**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(continued)*

Set forth in the following table is certain unaudited pro forma financial information for the nine months ended September 30, 2004 and 2003. This information has been prepared assuming that the formation of Bois d'Arc Energy was consummated on January 1, 2003 and is based on estimates and assumptions deemed appropriate by Comstock. A pro forma adjustment has been made to add back the formation costs of \$1.6 million that were included in the operating results for the nine months ended September 30, 2004. The pro forma information is presented for illustrative purposes only. If the transactions had occurred in the past, Comstock's operating results might have been different from those presented in the following table. The pro forma information should not be relied upon as an indication of the operating results that Comstock would have achieved if the transactions had occurred on January 1, 2003. The pro forma information also should not be used as an indication of the future results that Comstock will achieve after the transaction.

	<b>For the Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(In thousands, except per share amounts)</b>	
Oil and gas sales	\$ 230,125	\$ 225,921
Total operating expenses	(131,317)	(104,302)
Total other income (expenses)	(49,285)	(43,007)
	<hr/>	<hr/>
Income before income taxes and cumulative effect of change in accounting principle	49,523	78,612
Provision for income taxes	(17,828)	(27,568)
	<hr/>	<hr/>
Income before cumulative effect of change in accounting principle	31,695	51,044
Cumulative effect of change in accounting principle, net of income taxes		675
Preferred stock dividends		(573)
	<hr/>	<hr/>
Net income attributable to common stock	\$ 31,695	\$ 51,146
	<hr/>	<hr/>
Net income per share before cumulative effect of change in accounting principle:		
Basic	\$ 0.93	\$ 1.61
	<hr/>	<hr/>

Diluted	\$ 0.88	\$ 1.46
	<u>          </u>	<u>          </u>
Net income per share:		
Basic	\$ 0.93	\$ 1.63
	<u>          </u>	<u>          </u>
Diluted	\$ 0.88	\$ 1.48
	<u>          </u>	<u>          </u>

### ***Formation Costs***

The consolidated financial statements include \$1.6 million of costs incurred in connection with the formation of Bois d' Arc Energy including a termination fee of \$1.2 million for the cancellation of a service agreement for accounting and administrative services provided to Bois d' Arc Offshore Ltd. The fee is payable in monthly installments over a two year period beginning October 2004.

### ***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.

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The following is an analysis of the consolidated income tax expense:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>(In thousands)</b>			
Current	\$ 1,075	\$	\$ 4,389	\$
Deferred	5,854	6,957	13,054	25,639
Provision for Income Taxes	\$ 6,929	\$ 6,957	\$ 17,443	\$ 25,639

***Stock-Based Compensation***

Prior to January 1, 2004, Comstock accounted for employee stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ). Under the intrinsic method, compensation cost for stock options is measured as the excess, if any, of the fair value of the Company's common stock at the date of the grant over the amount an employee must pay to acquire the common stock. Effective January 1, 2004, the Company changed its method of accounting for employee stock-based compensation to the preferable fair value based method prescribed in Statement of Financial Accounting Standards