

COMSTOCK RESOURCES INC  
Form 10-Q  
November 07, 2007

**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 September 30, 2007**

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)

**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 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 November 7, 2007 was 44,432,345.

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**COMSTOCK RESOURCES, INC.**

**QUARTERLY REPORT**

**For The Quarter Ended September 30, 2007**

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**PART I — FINANCIAL INFORMATION**

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

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

|  | <b>September<br/>30,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|--|-----------------------------------|----------------------------------|
| <b>ASSETS</b>  |                                   |                                  |
| <i>(In thousands)</i>  |                                   |                                  |
| Cash and Cash<br>Equivalents                                     | \$ 17,032                         | \$ 10,715                        |
| Accounts Receivable:<br>Oil and gas<br>sales                     | 59,384                            | 56,328                           |
| Joint interest<br>operations                                     | 17,407                            | 19,233                           |
| Other Current<br>Assets  | 17,066                            | 12,552                           |
| Total current assets   | 110,889                           | 98,828                           |
| Property and Equipment:<br>Unevaluated oil and gas<br>properties | 14,024                            | 13,645                           |
| Oil and gas properties, successful efforts method                | 2,913,019                         | 2,511,782                        |
| Other property and<br>equipment                                  | 9,552                             | 8,483                            |
| Accumulated depreciation, depletion and amortization             | (915,859)                         | (760,284)                        |
| Net property and<br>equipment                                    | 2,020,736                         | 1,773,626                        |
| Other<br>Assets  | 4,734                             | 5,671                            |
|  | \$ 2,136,359                      | \$ 1,878,125                     |

## LIABILITIES AND STOCKHOLDERS' EQUITY

|                                  |          |          |
|----------------------------------|----------|----------|
| Short-term<br>Debt               | \$ 5,176 | \$ 3,250 |
| Accounts<br>Payable              | 116,300  | 132,504  |
| Accrued<br>Expenses              | 11,402   | 16,107   |
| Total current<br>liabilities     | 132,878  | 151,861  |
| Long-term<br>Debt                | 597,000  | 455,000  |
| Deferred Income Taxes<br>Payable | 356,050  | 311,236  |

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|   |              |              |
|---|--------------|--------------|
| Reserve for Future Abandonment  |              |              |
| Costs   | 60,436       | 57,116       |
| Minority Interest in Bois d'Arc   |              |              |
| Energy  | 251,443      | 220,349      |
| Total liabilities   | 1,397,807    | 1,195,562    |
| Commitments and Contingencies   |              |              |
| Stockholders' Equity:   |              |              |
| Common stock – \$0.50 par, 50,000,000 shares authorized, 44,432,345 and 44,395,495 shares outstanding at September 30, 2007 and December 31, 2006, respectively | 22,216       | 22,197       |
| Additional paid-in capital  | 376,090      | 367,323      |
| Retained earnings   | 340,246      | 293,043      |
| Total stockholders' equity  | 738,552      | 682,563      |
|   | \$ 2,136,359 | \$ 1,878,125 |

The accompanying notes are an integral part of these statements.

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

|   | <b>Three Months Ended</b>                       |             | <b>Nine Months Ended</b> |             |
|---|---|-------------|--------------------------|-------------|
|   | <b>September 30,</b>                            |             | <b>September 30,</b>     |             |
|   | <b>2007</b>                                     | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
|   | <i>(In thousands, except per share amounts)</i> |             |                          |             |
| Oil and gas sales   | \$ 171,074                                      | \$ 129,251  | \$ 491,309               | \$ 385,153  |
| Operating expenses:   |   |             |                          |             |
| Oil and gas operating   | 34,005  | 26,904      | 91,268                   | 78,220      |
| Exploration   | 5,710   | 8,069       | 36,709                   | 16,662      |
| Depreciation, depletion and<br>amortization                                   | 62,420  | 40,709      | 178,887                  | 104,457     |
| Impairment  | 826   | 1,389       | 826                      | 10,169      |
| General and administrative, net   | 8,676   | 7,370       | 26,540                   | 22,738      |
| Total operating expenses  | 111,637   | 84,441      | 334,230                  | 232,246     |
| Income from operations  | 59,437  | 44,810      | 157,079                  | 152,907     |
| Other income (expenses):  |   |             |                          |             |
| Interest income   | 410   | 258         | 1,041                    | 724         |
| Other income  | 154   | 187         | 505                      | 616         |
| Interest expense  | (11,225)  | (6,733)     | (29,880)                 | (18,322)    |
| Gain on derivatives   | —   | 1,180       | —                        | 10,608      |
| Total other income (expenses)   | (10,661)  | (5,108)     | (28,334)                 | (6,374)     |
| Income before income taxes and<br>minority interest                           | 48,776  | 39,702      | 128,745                  | 146,533     |
| Provision for income taxes  | (21,570)  | (16,662)    | (55,955)                 | (61,847)    |
| Minority interest in earnings of Bois<br>d'Arc Energy                         | (10,778)  | (6,004)     | (25,587)                 | (22,433)    |
| Net income  | \$ 16,428                                       | \$ 17,036   | \$ 47,203                | \$ 62,253   |
| Net income per share:   |   |             |                          |             |
| Basic   | \$ 0.38   | \$ 0.40     | \$ 1.09                  | \$ 1.48     |
| Diluted   | \$ 0.37   | \$ 0.39     | \$ 1.05                  | \$ 1.42     |
| Weighted average common and<br>common stock equivalent<br>shares outstanding: |   |             |                          |             |
| Basic   | 43,379  | 42,243      | 43,372                   | 42,128      |
| Diluted   | 44,434  | 43,553      | 44,345                   | 43,505      |



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, 2007**  
**(Unaudited)**

|  | <b>Common<br/>Stock<br/>(Shares)</b> | <b>Common<br/>Stock<br/>– Par Value</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Total</b> |
|--|--------------------------------------|---|---|------------------------------|--------------|
|  |                                      |   | <i>(In thousands)</i>                     |                              |              |
| Balance at January 1,<br>2007                          | 44,395                               | \$ 22,197                               | \$ 367,323                                | \$ 293,043                   | \$ 682,563   |
| Exercise of stock<br>options                           | 19                                   | 10                                      | 269                                       | —                            | 279          |
| Stock-based<br>compensation                            | 18                                   | 9                                       | 7,896                                     | —                            | 7,905        |
| Excess tax benefit<br>from stock-based<br>compensation | —                                    | —                                       | 602                                       | —                            | 602          |
| Net income   | —                                    | —                                       | —   | 47,203                       | 47,203       |
| Balance at<br>September 30, 2007                       | 44,432                               | \$ 22,216                               | \$ 376,090                                | \$ 340,246                   | \$ 738,552   |

The accompanying notes are an integral part of these statements.

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## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2007                               | 2006      |
|   | <i>(In thousands)</i>              |           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                    |           |
| Net income  | \$ 47,203                          | \$ 62,253 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| Deferred income taxes   | 45,942                             | 55,078    |
| Dry hole costs and leasehold impairments  | 31,442                             | 13,246    |
| Depreciation, depletion and amortization  | 178,887                            | 104,457   |
| Impairment  | 826                                | 10,169    |
| Debt issuance cost amortization   | 854                                | 878       |
| Stock-based compensation  | 12,910                             | 9,834     |
| Excess tax benefit from stock-based compensation                                  | (602)                              | (922)     |
| Minority interest in earnings of Bois d'Arc Energy                                | 25,587                             | 22,433    |
| Gain on derivatives   | —                                  | (10,608)  |
| (Increase) decrease in accounts receivable  | (1,230)                            | 10,774    |
| Increase in other current assets  | (2,588)                            | (139)     |
| Decrease in accounts payable and accrued expenses                                 | (14,346)                           | (3,153)   |
| Net cash provided by operating activities   | 324,885                            | 274,300   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                    |           |
| Capital expenditures  | (461,824)                          | (404,295) |
| Payments to settle derivatives  | —                                  | (703)     |
| Net cash used for investing activities  | (461,824)                          | (404,998) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                    |           |
| Borrowings  | 174,000                            | 182,000   |
| Principal payments on debt  | (32,000)                           | (39,000)  |
| Proceeds from issuance of common stock  | 789                                | 1,756     |
| Excess tax benefit from stock-based compensation                                  | 602                                | 922       |
| Debt issuance costs   | (135)                              | (28)      |
| Net cash provided by financing activities   | 143,256                            | 145,650   |
| Net increase in cash and cash equivalents   | 6,317                              | 14,952    |
| Cash and cash equivalents, beginning of period                                    | 10,715                             | 89        |
| Bois d'Arc Energy cash and equivalents as of January 1, 2006                      | —                                  | 12,043    |
| Cash and cash equivalents, end of period  | \$ 17,032                          | \$ 27,084 |

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, 2007**  
**(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 September 30, 2007 and the related results of operations for the three months and nine months ended September 30, 2007 and 2006 and cash flows for the nine months ended September 30, 2007 and 2006.

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, 2006.

The results of operations for the three months and nine months ended September 30, 2007 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.

The Company currently owns a controlling ownership interest in Bois d'Arc Energy, Inc. ("Bois d'Arc Energy") and currently intends to maintain its controlling interest by acquiring additional shares of Bois d'Arc Energy common stock, through open market purchases and other negotiated transactions, as appropriate. However, such actions are subject to the outcome of an evaluation of strategic alternatives by the board of directors of Bois d'Arc Energy, including the potential sale of Bois d'Arc Energy. The Company includes Bois d'Arc Energy in its consolidated financial statements.

In connection with its acquisitions of 2,288,900 additional common shares of Bois d'Arc Energy in 2006 and 2007, Comstock allocated the \$36.5 million purchase price paid for the shares in excess of its underlying net book value in Bois d'Arc Energy of \$19.0 million together with the related deferred income tax liability of \$10.1 million to oil and gas properties. This additional amount is being amortized over the productive lives of Bois d'Arc Energy's oil and gas properties using the unit-of-production method. The pro forma impact of the acquisition of these shares was not material to the Company's results of operations for the nine months ended September 30, 2006.

***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 nine months ended September 30, 2007 and 2006:

|   | <b>Nine Months Ended</b> |             |
|---|--------------------------|-------------|
|   | <b>September 30,</b>     |             |
|   | <b>2007</b>              | <b>2006</b> |
|   | <i>(In thousands)</i>    |             |
| Beginning asset retirement obligations                  | \$ 57,116                | \$ 3,206    |
| Bois d'Arc abandonment liability <sup>(1)</sup>         | —                        | 35,034      |
| Accretion expense                                       | 2,702                    | 1,849       |
| Acquisition liabilities assumed                         | 94                       | 3,314       |
| New wells placed on production and changes in estimates | 1,279                    | 953         |
| Liabilities settled                                     | (755)                    | (23)        |
| Future abandonment liability — end of period            | \$ 60,436                | \$ 44,333   |

(1) Concurrent with including Bois d'Arc Energy as a consolidated subsidiary as of January 1, 2006, the asset retirement obligations of Bois d'Arc Energy are included in the Company's financial statements.

***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.

The Company had no derivative financial instruments outstanding during the three months and nine months ended September 30, 2007. The fair value of the Company's derivative contracts held for price risk management at September 30, 2006 was an asset of \$68,000. Comstock did not designate these instruments as cash flow hedges, and accordingly unrealized gains on derivatives of \$1.2 million and \$11.3 million were recorded for the three months and nine months ended September 30, 2006. The Company realized losses of \$0.7 million for the nine months ended



September 30, 2006 to settle derivative positions.

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**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Continued)*

***Stock-Based Compensation***

Comstock Resources, Inc. and Bois d'Arc Energy maintain separate incentive compensation plans under which they grant common stock and stock options to key employees and directors.

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 September 30, 2007 and 2006, the Company recognized \$4.3 million and \$3.3 million, respectively, in stock-based compensation expense within general and administrative expenses related to stock option and restricted stock grants, including \$1.6 million and \$1.7 million, respectively, attributable to Bois d'Arc Energy's incentive plan. Stock based compensation expense for the nine months ended September 30, 2007 and 2006 was \$12.9 million and \$9.8 million, respectively which includes \$5.0 million and \$4.7 million, respectively, attributable to Bois d'Arc Energy's incentive plan. The excess income tax benefit realized from the deductions associated with stock-based compensation for the nine months ended September 30, 2007 and 2006 was \$0.6 million and \$0.9 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 nine months ended September 30, 2007, Comstock granted options to purchase 40,000 shares at an exercise price of \$29.49 per share. The fair value of the Comstock options awarded was determined to be \$10.32 per share. Assumptions used to value these Comstock stock options included expected volatility of 36.1%, expected lives of 3.9 years, a risk-free interest rate of 4.9% and an expected dividend yield of zero. Bois d'Arc Energy granted options to purchase 258,500 shares at a weighted average exercise price of \$16.24 per share during the nine months ended September 30, 2007. The fair value of the Bois d'Arc Energy options awarded was determined to be \$6.17 per option share. Assumptions used to value the Bois d'Arc Energy stock options included expected volatility of 36.4%, expected lives of 4.5 years, a risk free interest rate of 4.9% and a dividend yield of zero. As of September 30, 2007, total unrecognized compensation cost related to nonvested Comstock stock options of \$2.4 million is expected to be recognized over a period of 3.2 years. As of September 30, 2007, total unrecognized compensation cost related to nonvested Bois d'Arc Energy stock options of \$8.9 million is expected to be recognized over a period of 5.2 years.

As of September 30, 2007, Comstock had 1,041,000 shares of unvested restricted stock outstanding at a weighted average grant date fair value of \$28.46 per share. During the nine months ended September 30, 2007 Comstock issued 18,000 new restricted stock grants with a weighted average grant date fair value of \$29.38 per share. Total unrecognized compensation cost related to Comstock unvested restricted stock grants of \$18.4 million as of September 30, 2007 is expected to be recognized over a period of 3.8 years. As of September 30, 2007, Bois d'Arc Energy had 854,000 shares of unvested restricted stock outstanding at a weighted average grant date fair value of \$6.80 per share. Total unrecognized compensation cost related to Bois d'Arc Energy unvested restricted stock grants of \$5.2 million as of September 30, 2007 is expected to be recognized over a period of 1.8 years.



## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)***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 before income taxes and minority interest is due to the following:

|   | Three Months Ended |        | Nine Months Ended |        |
|---|--------------------|--------|-------------------|--------|
|   | September 30,      |        | September 30,     |        |
|   | 2007               | 2006   | 2007              | 2006   |
| Tax at statutory rate   | 35.0%              | 35.0%  | 35.0%             | 35.0%  |
| Tax effect of:  |                    |        |                   |        |
| Undistributed earnings of Bois d'Arc Energy, not consolidated for federal income tax purposes | 7.5%               | 4.9%   | 6.8%              | 5.0%   |
| Nondeductible stock-based compensation  | 1.7%               | 2.0%   | 2.0%              | 1.7%   |
| Changes due to tax law changes  | —%                 | —%     | (0.6%)            | 0.7%   |
| State income taxes, net of federal benefit  | 0.9%               | (0.4%) | 0.9%              | —%     |
| Other   | (0.9%)             | 0.5%   | (0.6%)            | (0.2%) |
| Effective tax rate  | 44.2%              | 42.0%  | 43.5%             | 42.2%  |

The following is an analysis of consolidated income tax expense:

|                            | Three Months Ended    |           | Nine Months Ended |           |
|----------------------------|-----------------------|-----------|-------------------|-----------|
|                            | September 30,         |           | September 30,     |           |
|                            | 2007                  | 2006      | 2007              | 2006      |
|                            | <i>(In thousands)</i> |           |                   |           |
| Current provision          | \$ 4,322              | \$ 1,599  | \$ 10,013         | \$ 6,769  |
| Deferred provision         | 17,248                | 15,063    | 45,942            | 55,078    |
| Provision for Income Taxes | \$ 21,570             | \$ 16,662 | \$ 55,955         | \$ 61,847 |

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions. The Company has analyzed its filing positions in all jurisdictions where it is required to file income tax returns for the open tax years in such jurisdictions. The Company has identified its federal income tax return and its state income tax returns in Texas, Louisiana, Mississippi and Oklahoma in which it operates as "major" tax jurisdictions. The Company's federal income tax returns for the years subsequent to December 31, 2004 remain subject to examination. The Company's income tax returns in major state income tax jurisdictions remain subject to examination for various periods subsequent to December 31, 2004. The Company currently believes that all significant filing positions are highly certain and that all of its significant income tax filing positions and deductions would be sustained upon audit. Therefore, the Company has no significant reserves for uncertain tax positions and no

adjustments to such reserves were required upon adoption of FIN 48. Interest and penalties resulting from audits by tax authorities have been immaterial and are included in the provision for income taxes in the consolidated statements of operations.

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)***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 nine months ended September 30, 2007 and 2006, respectively, were determined as follows:

|  | <b>Nine Months Ended September 30,</b>          |               |                      |               |               |                      |
|--|---|---------------|----------------------|---------------|---------------|----------------------|
|  | <b>2007</b>                                     |               |                      | <b>2006</b>   |               |                      |
|  | <b>Income</b>                                   | <b>Shares</b> | <b>Per<br/>Share</b> | <b>Income</b> | <b>Shares</b> | <b>Per<br/>Share</b> |
|  | <i>(In thousands, except per share amounts)</i> |               |                      |               |               |                      |
| <i>Basic Earnings Per Share:</i>   |   |               |                      |               |               |                      |
| Net Income   | \$ 16,428                                       | 43,379        | \$ 0.38              | \$ 17,036     | 42,243        | \$ 0.40              |
| <i>Diluted Earnings Per Share:</i>   |   |               |                      |               |               |                      |
| Net Income   | \$ 16,428                                       | 43,379        |                      | \$ 17,036     | 42,243        |                      |
| Effect of Dilutive Securities:<br>Stock Grants and Options                 | (186)   | 1,055         |                      | (88)          | 1,310         |                      |
| Net Income Available to<br>Common Stockholders With<br>Assumed Conversions | \$ 16,242                                       | 44,434        | \$ 0.37              | \$ 16,948     | 43,553        | \$ 0.39              |

|  | <b>Nine Months Ended September 30,</b>          |               |                      |               |               |                      |
|--|---|---------------|----------------------|---------------|---------------|----------------------|
|  | <b>2007</b>                                     |               |                      | <b>2006</b>   |               |                      |
|  | <b>Income</b>                                   | <b>Shares</b> | <b>Per<br/>Share</b> | <b>Income</b> | <b>Shares</b> | <b>Per<br/>Share</b> |
|  | <i>(In thousands, except per share amounts)</i> |               |                      |               |               |                      |
| <i>Basic Earnings Per Share:</i>   |   |               |                      |               |               |                      |
| Net Income   | \$ 47,203                                       | 43,372        | \$ 1.09              | \$ 62,253     | 42,128        | \$ 1.48              |
| <i>Diluted Earnings Per Share:</i>   |   |               |                      |               |               |                      |
| Net Income   | \$ 47,203                                       | 43,372        |                      | \$ 62,253     | 42,128        |                      |
| Effect of Dilutive Securities:<br>Stock Grants and Options                 | (441)   | 973           |                      | (394)         | 1,377         |                      |
| Net Income Available to<br>Common Stockholders With<br>Assumed Conversions | \$ 46,762                                       | 44,345        | \$ 1.05              | \$ 61,859     | 43,505        | \$ 1.42              |

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****Nine Months Ended**

|  | <b>September 30,<br/>2007</b>               | <b>September 30,<br/>2006</b> | <b>September 30,<br/>2007</b> | <b>September 30,<br/>2006</b> |
|--|---|-------------------------------|-------------------------------|-------------------------------|
|  | <i>(In thousands except per share data)</i> |                               |                               |                               |
| Weighted average anti-dilutive stock options | 267   | 132                           | 249                           | 113                           |
| Weighted average exercise price              | \$ 32.32                                    | \$ 32.48                      | \$ 32.52                      | \$ 32.49                      |

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

|                     | <b>Nine Months Ended<br/>September 30,<br/>2007      2006</b> |           |
|---------------------|---|-----------|
|                     | <i>(In thousands)</i>   |           |
| Cash Payments -     |   |           |
| Interest payments   | \$ 32,448   | \$ 21,017 |
| Income tax payments | \$ 9,978  | \$ 7,105  |

**(2) LONG-TERM DEBT –**

At September 30, 2007, long-term debt was comprised of the following:

|  | <i>(In<br/>thousands)</i> |
|--|---------------------------|
| Comstock Revolving Bank Credit Facility          | \$ 322,000                |
| Bois d'Arc Energy Revolving Bank Credit Facility | 100,000                   |
| Comstock 6 % Senior Notes due 2012               | 175,000                   |
|  | \$ 597,000                |

Comstock has a \$600.0 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 September 30, 2007, the borrowing base was \$400.0 million, \$78.0 million of which was

available. On November 5, 2007 the borrowing base was increased to \$500.0 million. 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 September 30, 2007.



**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Continued)*

Bois d'Arc Energy has a bank credit facility with The Bank of Nova Scotia and several other banks. Borrowings under the credit facility are limited to a borrowing base that is redetermined semi-annually based on the banks' estimate of the future net cash flows of Bois d'Arc Energy's oil and natural gas properties. The determination of the borrowing base is at the sole discretion of the administrative agent and the bank group. The borrowing base was \$225.0 million as of September 30, 2007. Availability under this credit facility was \$125.0 million as of September 30, 2007. The Bois d'Arc Energy credit facility matures on May 11, 2009. Borrowings under the credit facility bear interest at Bois d'Arc Energy's option of either (1) LIBOR plus a margin that varies from 1.25% to 2.0% depending upon the ratio of the amounts outstanding to the borrowing base or (2) the base rate (which is the higher of the prime rate or the federal funds rate) plus a margin that varies from 0% to 0.75% depending upon the ratio of the amounts outstanding to the borrowing base. A commitment fee ranging from 0.375% to 0.50% (depending upon the ratio of the amounts outstanding to the borrowing base) is payable on the unused borrowing base. Indebtedness under the credit facility is secured by substantially all of Bois d'Arc Energy and its subsidiaries' assets, and all of Bois d'Arc Energy's subsidiaries are guarantors of the indebtedness. The Bois d'Arc Energy credit facility contains covenants that restrict the payment of cash dividends in excess of \$5.0 million, borrowings, sales of assets, loans to others, capital expenditures, investments, merger activity, hedging contracts, liens and certain other transactions without the prior consent of the lenders and requires Bois d'Arc Energy to maintain a ratio of current assets, including the availability under the bank credit facility, to current liabilities of at least one-to-one and a ratio of indebtedness to earnings before interest, taxes, depreciation, depletion, and amortization, exploration and impairment expense of no more than 2.5-to-one. Bois d'Arc Energy was in compliance with these covenants as of September 30, 2007.

**(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 and for the acquisition of seismic data under terms of up to three years. The Company has commitments to acquire seismic data totaling \$8.3 million through December 2008. As of September 30, 2007, the Company had commitments for contracted drilling services of \$30.5 million through September 2008.

**(4) 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.



## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)***Balance Sheet:**

As of September 30, 2007

|  | Comstock<br>Resources | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br><i>(In thousands)</i> | Eliminating<br>Entries | Consolidated |
|--|-----------------------|---------------------------|--|------------------------|--------------|
| <b>Assets:</b>                               |                       |                           |  |                        |              |
| Cash and cash equivalents                    | \$ —                  | \$ 2,286                  | \$ 14,746  | \$ —                   | \$ 17,032    |
| Accounts receivable                          | —                     | 42,793                    | 33,998   | —                      | 76,791       |
| Other current assets                         | 392                   | 6,122                     | 10,552   | —                      | 17,066       |
| Total current assets                         | 392                   | 51,201                    | 59,296   | —                      | 110,889      |
| Net property and equipment                   | 28,622                | 1,107,822                 | 884,292  | —                      | 2,020,736    |
| Investment in subsidiaries                   | 742,806               | —                         | —  | (742,806)              | —            |
| Intercompany receivables                     | 488,154               | —                         | —  | (488,154)              | —            |
| Other assets                                 | 4,148                 | —                         | 586  | —                      | 4,734        |
| Total assets                                 | \$ 1,264,122          | \$ 1,159,023              | \$ 944,174   | \$ (1,230,960)         | \$ 2,136,359 |
| <b>Liabilities and Stockholders' Equity:</b> |                       |                           |  |                        |              |
| Short-term debt                              | \$ —                  | \$ —                      | \$ 5,176   | \$ —                   | \$ 5,176     |
| Accounts payable                             | 28                    | 75,822                    | 40,450   | —                      | 116,300      |
| Accrued expenses                             | 3,953                 | 6,109                     | 1,340  | —                      | 11,402       |
| Total current liabilities                    | 3,981                 | 81,931                    | 46,966   | —                      | 132,878      |
| Long-term debt                               | 497,000               | —                         | 100,000  | —                      | 597,000      |
| Intercompany payables                        | —                     | 488,154                   | —  | (488,154)              | —            |
| Deferred income taxes payable                | 24,589                | 158,063                   | 173,398  | —                      | 356,050      |
| Reserve for future abandonment costs         | —                     | 9,307                     | 51,129   | —                      | 60,436       |
| Minority interest                            | —                     | —                         | —  | 251,443                | 251,443      |
| Total liabilities                            | 525,570               | 737,455                   | 371,493  | (236,711)              | 1,397,807    |
| Stockholders' equity                         | 738,552               | 421,568                   | 572,681  | (994,249)              | 738,552      |
| Total liabilities and stockholders' equity   | \$ 1,264,122          | \$ 1,159,023              | \$ 944,174   | \$ (1,230,960)         | \$ 2,136,359 |



## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)***Balance Sheet:**

As of December 31, 2006

|  | Comstock<br>Resources | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br><i>(In thousands)</i> | Eliminating<br>Entries | Consolidated |
|--|-----------------------|---------------------------|--|------------------------|--------------|
| <b>Assets:</b>                               |                       |                           |  |                        |              |
| Cash and cash equivalents                    | \$ —                  | \$ 1,228                  | \$ 9,487   | \$ —                   | \$ 10,715    |
| Accounts receivable                          | —                     | 37,049                    | 38,512   | —                      | 75,561       |
| Other current assets                         | 210                   | 3,547                     | 8,795  | —                      | 12,552       |
| Total current assets                         | 210                   | 41,824                    | 56,794   | —                      | 98,828       |
| Net property and equipment                   | 30,345                | 915,486                   | 827,795  | —                      | 1,773,626    |
| Investment in subsidiaries                   | 654,840               | —                         | —  | (654,840)              | —            |
| Intercompany receivables                     | 374,858               | —                         | —  | (374,858)              | —            |
| Other assets                                 | 4,757                 | 2                         | 912  | —                      | 5,671        |
| Total assets                                 | \$ 1,065,010          | \$ 957,312                | \$ 885,501   | \$ (1,029,698)         | \$ 1,878,125 |
| <b>Liabilities and Stockholders' Equity:</b> |                       |                           |  |                        |              |
| Short-term debt                              | \$ —                  | \$ —                      | \$ 3,250   | \$ —                   | \$ 3,250     |
| Accounts payable                             | 9,687                 | 62,041                    | 60,776   | —                      | 132,504      |
| Accrued expenses                             | —                     | 11,265                    | 4,842  | —                      | 16,107       |
| Total current liabilities                    | 9,687                 | 73,306                    | 68,868   | —                      | 151,861      |
| Long-term debt                               | 355,000               | —                         | 100,000  | —                      | 455,000      |
| Intercompany payables                        | —                     | 374,858                   | —  | (374,858)              | —            |
| Deferred income taxes payable                | 17,760                | 141,517                   | 151,959  | —                      | 311,236      |
| Reserve for future abandonment costs         | —                     | 9,052                     | 48,064   | —                      | 57,116       |
| Minority interest                            | —                     | —                         | —  | 220,349                | 220,349      |
| Total liabilities                            | 382,447               | 598,733                   | 368,891  | (154,509)              | 1,195,562    |
| Stockholders' equity                         | 682,563               | 358,579                   | 516,610  | (875,189)              | 682,563      |
| Total liabilities and stockholders' equity   | \$ 1,065,010          | \$ 957,312                | \$ 885,501   | \$ (1,029,698)         | \$ 1,878,125 |



## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)*

## Statement of Operations:

|  | Three Months Ended September 30, 2007 |                        |   |                     |            | Consolidated |
|--|---------------------------------------|------------------------|---|---------------------|------------|--------------|
|  | Comstock Resources                    | Guarantor Subsidiaries | Non-Guarantor Subsidiaries<br><i>(In thousands)</i> | Eliminating Entries |            |              |
| Oil and gas sales  | \$ —                                  | \$ 83,087              | \$ 87,987   | \$ —                | \$ 171,074 |              |
| Operating expenses:  |                                       |                        |   |                     |            |              |
| Oil and gas operating  | —                                     | 17,030                 | 16,975  | —                   | 34,005     |              |
| Exploration  | —                                     | 1,375                  | 4,335   | —                   | 5,710      |              |
| Depreciation, depletion and amortization   | 848                                   | 33,293                 | 28,279  | —                   | 62,420     |              |
| Impairment   | —                                     | 482                    | 344   | —                   | 826        |              |
| General and administrative, net  | 8,372                                 | (2,709)                | 3,013   | —                   | 8,676      |              |
| Total operating expenses   | 9,220                                 | 49,471                 | 52,946  | —                   | 111,637    |              |
| Income from operations   | (9,220)                               | 33,616                 | 35,041  | —                   | 59,437     |              |
| Other income (expenses):   |                                       |                        |   |                     |            |              |
| Interest income  | —                                     | 256                    | 154   | —                   | 410        |              |
| Other income   | —                                     | 39                     | 115   | —                   | 154        |              |
| Interest expense   | (8,772)                               | —                      | (2,453)   | —                   | (11,225)   |              |
| Intercompany interest income (expense)   | 2,749                                 | (2,749)                | —   | —                   | —          |              |
| Total other income (expenses)  | (6,023)                               | (2,454)                | (2,184)   | —                   | (10,661)   |              |
| Income (loss) before income taxes and minority interest in earnings of Bois d'Arc Energy | (15,243)                              | 31,162                 | 32,857  | —                   | 48,776     |              |
| (Provision for) benefit from income taxes  | 1,026                                 | (10,968)               | (11,628)  | —                   | (21,570)   |              |
| Minority interest in earnings of Bois d'Arc Energy                                       | —                                     | —                      | —   | (10,778)            | (10,778)   |              |
| Equity in earnings of subsidiaries   | 30,645                                | —                      | —   | (30,645)            | —          |              |
| Net income   | \$ 16,428                             | \$ 20,194              | \$ 21,229   | \$ (41,423)         | \$ 16,428  |              |





## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)***Statement of Operations:**

|  | Three Months Ended September 30, 2006 |                        |   |                     |            | Consolidated |
|--|---------------------------------------|------------------------|---|---------------------|------------|--------------|
|  | Comstock Resources                    | Guarantor Subsidiaries | Non-Guarantor Subsidiaries<br><i>(In thousands)</i> | Eliminating Entries |            |              |
| Oil and gas sales  | \$ —                                  | \$ 62,255              | \$ 66,996   | \$ —                | \$ 129,251 |              |
| Operating expenses:  |                                       |                        |   |                     |            |              |
| Oil and gas operating  | —                                     | 13,366                 | 13,538  | —                   | 26,904     |              |
| Exploration  | —                                     | —                      | 8,069   | —                   | 8,069      |              |
| Depreciation, depletion and amortization   | 329                                   | 18,648                 | 21,732  | —                   | 40,709     |              |
| Impairment   | —                                     | 803                    | 586   | —                   | 1,389      |              |
| General and administrative, net  | 6,123                                 | (1,783)                | 3,030   | —                   | 7,370      |              |
| Total operating expenses   | 6,452                                 | 31,034                 | 46,955  | —                   | 84,441     |              |
| Income from operations   | (6,452)                               | 31,221                 | 20,041  | —                   | 44,810     |              |
| Other income (expenses):   |                                       |                        |   |                     |            |              |
| Interest income  | —                                     | 143                    | 115   | —                   | 258        |              |
| Other income   | —                                     | 45                     | 142   | —                   | 187        |              |
| Interest expense   | (4,851)                               | —                      | (1,882)   | —                   | (6,733)    |              |
| Gain on derivatives  | —                                     | 1,180                  | —   | —                   | 1,180      |              |
| Intercompany interest income (expense)   | 2,621                                 | (2,621)                | —   | —                   | —          |              |
| Total other income (expenses)  | (2,230)                               | (1,253)                | (1,625)   | —                   | (5,108)    |              |
| Income (loss) before income taxes and minority interest in earnings of Bois d'Arc Energy | (8,682)                               | 29,968                 | 18,416  | —                   | 39,702     |              |
| Provision for income taxes   | 410                                   | (10,240)               | (6,832)   | —                   | (16,662)   |              |
| Minority interest in earnings of Bois d'Arc Energy                                       | —                                     | —                      | —   | (6,004)             | (6,004)    |              |
| Equity in earnings of subsidiaries   | 25,308                                | —                      | —   | (25,308)            | —          |              |
| Net income   | \$ 17,036                             | \$ 19,728              | \$ 11,584   | \$ (31,312)         | \$ 17,036  |              |



## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)***Statement of Operations:**

|  | Nine Months Ended September 30, 2007 |                        |   |                     |            | Consolidated |
|--|--------------------------------------|------------------------|---|---------------------|------------|--------------|
|  | Comstock Resources                   | Guarantor Subsidiaries | Non-Guarantor Subsidiaries<br><i>(In thousands)</i> | Eliminating Entries |            |              |
| Oil and gas sales  | \$ —                                 | \$ 236,094             | \$ 255,215  | \$ —                | \$ 491,309 |              |
| Operating expenses:  |                                      |                        |   |                     |            |              |
| Oil and gas operating  | —                                    | 48,709                 | 42,559  | —                   | 91,268     |              |
| Exploration  | —                                    | 3,651                  | 33,058  | —                   | 36,709     |              |
| Depreciation, depletion and amortization   | 2,621                                | 90,693                 | 85,573  | —                   | 178,887    |              |
| Impairment   | —                                    | 482                    | 344   | —                   | 826        |              |
| General and administrative, net  | 24,902                               | (7,401)                | 9,039   | —                   | 26,540     |              |
| Total operating expenses   | 27,523                               | 136,134                | 170,573   | —                   | 334,230    |              |
| Income from operations   | (27,523)                             | 99,960                 | 84,642  | —                   | 157,079    |              |
| Other income (expenses):   |                                      |                        |   |                     |            |              |
| Interest income  | —                                    | 644                    | 397   | —                   | 1,041      |              |
| Other income   | —                                    | 116                    | 389   | —                   | 505        |              |
| Interest expense   | (22,831)                             | (1)                    | (7,048)   | —                   | (29,880)   |              |
| Intercompany interest income (expense)   | 4,130                                | (4,130)                | —   | —                   | —          |              |
| Total other income (expenses)  | (18,701)                             | (3,371)                | (6,262)   | —                   | (28,334)   |              |
| Income (loss) before income taxes and minority interest in earnings of Bois d'Arc Energy | (46,224)                             | 96,589                 | 78,380  | —                   | 128,745    |              |
| (Provision for) benefit from income taxes  | 5,492                                | (33,600)               | (27,847)  | —                   | (55,955)   |              |
| Minority interest in earnings of Bois d'Arc Energy                                       | —                                    | —                      | —   | (25,587)            | (25,587)   |              |
| Equity in earnings of subsidiaries   | 87,935                               | —                      | —   | (87,935)            | —          |              |
| Net income   | \$ 47,203                            | \$ 62,989              | \$ 50,533   | \$ (113,522)        | \$ 47,203  |              |



## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)*

## Statement of Operations:

|  | Nine Months Ended September 30, 2006 |                        |   |                     |            | Consolidated |
|--|--------------------------------------|------------------------|---|---------------------|------------|--------------|
|  | Comstock Resources                   | Guarantor Subsidiaries | Non-Guarantor Subsidiaries<br><i>(In thousands)</i> | Eliminating Entries |            |              |
| Oil and gas sales  | \$ —                                 | \$ 196,717             | \$ 188,436  | \$ —                | \$ 385,153 |              |
| Operating expenses:  |                                      |                        |   |                     |            |              |
| Oil and gas operating  | —                                    | 40,421                 | 37,799  | —                   | 78,220     |              |
| Exploration  | —                                    | 344                    | 16,318  | —                   | 16,662     |              |
| Depreciation, depletion and amortization   | 444                                  | 51,393                 | 52,620  | —                   | 104,457    |              |
| Impairment   | —                                    | 8,737                  | 1,432   | —                   | 10,169     |              |
| General and administrative, net  | 18,659                               | (4,833)                | 8,912   | —                   | 22,738     |              |
| Total operating expenses   | 19,103                               | 96,062                 | 117,081   | —                   | 232,246    |              |
| Income from operations   | (19,103)                             | 100,655                | 71,355  |                     | 152,907    |              |
| Other income (expenses):   |                                      |                        |   |                     |            |              |
| Interest income  |                                      | 483                    | 241   | —                   | 724        |              |
| Other income   | —                                    | 147                    | 469   | —                   | 616        |              |
| Interest expense   | (14,041)                             | 247                    | (4,528)   | —                   | (18,322)   |              |
| Gain on derivatives  | —                                    | 10,608                 | —   | —                   | 10,608     |              |
| Intercompany interest income (expense)   | 7,229                                | (7,229)                | —   | —                   | —          |              |
| Total other income (expenses)  | (6,812)                              | 4,256                  | (3,818)   | —                   | (6,374)    |              |
| Income (loss) before income taxes and minority interest in earnings of Bois d'Arc Energy | (25,915)                             | 104,911                | 67,537  | —                   | 146,533    |              |
| Provision for income taxes   | 280                                  | (37,738)               | (24,389)  | —                   | (61,847)   |              |
| Minority interest in earnings of Bois d'Arc Energy                                       | —                                    | —                      | —   | (22,433)            | (22,433)   |              |
| Equity in earnings of subsidiaries   | 87,888                               | —                      | —   | (87,888)            | —          |              |
| Net income   | \$ 62,253                            | \$ 67,173              | \$ 43,148   | \$ (110,321)        | \$ 62,253  |              |



## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)***Statement of Cash Flows:**

|  | <b>Nine Months Ended September 30, 2007</b> |                               |                                   |                            |            | <b>Consolidated</b> |
|--|---|-------------------------------|-----------------------------------|----------------------------|------------|---------------------|
|  | <b>Comstock Resources</b>                   | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminating Entries</b> |            |                     |
|  |   |                               | <i>(In thousands)</i>             |                            |            |                     |
| Net Cash Provided by (Used for) Operating Activities | \$ (28,677)                                 | \$ 177,536                    | \$ 176,003                        | \$ 23                      | \$ 324,885 |                     |
| Cash Flows From Investing Activities:                |   |                               |                                   |                            |            |                     |
| Capital expenditures                                 | (874)                                       | (289,774)                     | (171,176)                         | —                          | (461,824)  |                     |
| Net Cash Used for Investing Activities               | (874)                                       | (289,774)                     | (171,176)                         | —                          | (461,824)  |                     |
| Cash Flows From Financing Activities:                |   |                               |                                   |                            |            |                     |
| Borrowings   | 142,000                                     | —                             | 32,000                            | —                          | 174,000    |                     |
| Principal payments on debt                           | —   | —                             | (32,000)                          | —                          | (32,000)   |                     |
| Advances to (from) parent                            | (113,296)                                   | 113,296                       | —                                 | —                          | —          |                     |
| Proceeds from issuance of common stock               | 279   | —                             | 510                               | —                          | 789        |                     |
| Excess tax benefit from stock-based compensation     | 602   | —                             | 23                                | (23)                       | 602        |                     |
| Debt issuance costs                                  | (34)  | —                             | (101)                             | —                          | (135)      |                     |
| Net Cash Provided by Financing Activities            | 29,551                                      | 113,296                       | 432                               | (23)                       | 143,256    |                     |
| Net increase in cash and cash equivalents            | —   | 1,058                         | 5,259                             | —                          | 6,317      |                     |
| Cash and cash equivalents, beginning of period       | —   | 1,228                         | 9,487                             | —                          | 10,715     |                     |
| Cash and cash equivalents, end of period             | \$ —  | \$ 2,286                      | \$ 14,746                         | \$ —                       | \$ 17,032  |                     |





## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)***Statement of Cash Flows:**

|  | <b>Nine Months Ended September 30, 2006</b> |                               |                                   |                            |                     |
|--|---|-------------------------------|-----------------------------------|----------------------------|---------------------|
|  | <b>Comstock Resources</b>                   | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminating Entries</b> | <b>Consolidated</b> |
|  | <i>(In thousands)</i>                       |                               |                                   |                            |                     |
| Net Cash Provided by (Used for) Operating Activities | \$ (12,639)                                 | \$ 148,968                    | \$ 137,971                        | \$ —                       | \$ 274,300          |
| Cash Flows From Investing Activities:                |   |                               |                                   |                            |                     |
| Capital expenditures and acquisitions                | (929)                                       | (207,318)                     | (196,048)                         | —                          | (404,295)           |
| Acquisition of Bois d'Arc Energy, Inc. common stock  | (35,865)                                    | —                             | —                                 | 35,865                     | —                   |
| Payments to settle derivatives                       | —   | (703)                         | —                                 | —                          | (703)               |
| Net Cash Used for Investing Activities               | (36,794)                                    | (208,021)                     | (196,048)                         | 35,865                     | (404,998)           |
| Cash Flows From Financing Activities:                |   |                               |                                   |                            |                     |
| Borrowings   | 111,000                                     | —                             | 71,000                            | —                          | 182,000             |
| Principal payments on debt                           | (4,000)                                     | —                             | (35,000)                          | —                          | (39,000)            |
| Advances to (from) parent                            | (60,245)                                    | 60,245                        | —                                 | —                          | —                   |
| Proceeds from issuance of common stock               | 1,756                                       | —                             | 35,990                            | (35,990)                   | 1,756               |
| Excess tax benefit from stock-based compensation     | 922   | —                             | 29                                | (29)                       | 922                 |
| Debt issuance costs                                  | —   | (28)                          | (154)                             | 154                        | (28)                |
| Net Cash Provided by Financing Activities            | 49,433                                      | 60,217                        | 71,865                            | (35,865)                   | 145,650             |
| Net increase in cash and cash equivalents            | —   | 1,164                         | 13,788                            | —                          | 14,952              |
| Cash and cash equivalents, beginning of period       | —   | 89                            | —                                 | —                          | 89                  |
|  | —   | —                             | 12,043                            | —                          | 12,043              |

Bois d'Arc Energy  
cash and cash  
equivalents as of  
January 1, 2006  
Cash and cash  
equivalents, end of  
period

|    |   |    |       |    |        |    |   |    |        |
|----|---|----|-------|----|--------|----|---|----|--------|
| \$ | — | \$ | 1,253 | \$ | 25,831 | \$ | — | \$ | 27,084 |
|----|---|----|-------|----|--------|----|---|----|--------|

**INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

We have reviewed the consolidated balance sheet of Comstock Resources, Inc. (a Nevada corporation) and subsidiaries (the Company) as of September 30, 2007, and the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2007 and 2006, the consolidated statement of stockholders' equity for the nine months ended September 30, 2007, and the consolidated statements of cash flows for the nine-month periods ended September 30, 2007 and 2006. 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, 2006, 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, 2007 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. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Dallas, Texas  
November 7, 2007



## 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, 2006.

### Investment in Bois d'Arc Energy

We own a controlling ownership interest in Bois d'Arc Energy and currently intend to maintain our controlling interest by acquiring additional shares of Bois d'Arc Energy common stock through open market purchases and other negotiated transactions, as appropriate. However, such controlling position and any further actions are subject to the outcome of an evaluation of strategic alternatives by the board of directors of Bois d'Arc Energy, including the potential sale of Bois d'Arc Energy. We include Bois d'Arc Energy in our consolidated financial statements.

### Results of Operations

The following table reflects certain summary operating data for our onshore operations and for Bois d'Arc Energy for the periods presented:

|  | Three Months Ended September 30,<br>2007       |                         |            | Three Months Ended September 30,<br>2006 |                         |            |
|--|--|-------------------------|------------|--|-------------------------|------------|
|  | Onshore  | Bois<br>d'Arc<br>Energy | Total      | Onshore                                  | Bois<br>d'Arc<br>Energy | Total      |
|  | <i>(In thousands, except per unit amounts)</i> |                         |            |  |                         |            |
| <b>Net Production Data:</b>                      |  |                         |            |  |                         |            |
| Oil (Mbbbls)                                     | 260  | 448                     | 708        | 231                                      | 370                     | 601        |
| Natural Gas (Mmcf)                               | 10,612   | 8,241                   | 18,853     | 7,409                                    | 6,106                   | 13,515     |
| Natural Gas equivalent<br>(Mmcfe)                | 12,170   | 10,930                  | 23,100     | 8,792                                    | 8,328                   | 17,120     |
| <b>Revenues:</b>                                 |  |                         |            |  |                         |            |
| Oil sales  | \$ 16,628                                      | \$ 34,738               | \$ 51,366  | \$ 13,696                                | \$ 25,935               | \$ 39,631  |
| Gas sales  | 66,459   | 53,249                  | 119,708    | 48,559                                   | 41,061                  | 89,620     |
| Total oil and gas sales                          | \$ 83,087                                      | \$ 87,987               | \$ 171,074 | \$ 62,255                                | \$ 66,996               | \$ 129,251 |
| <b>Expenses:</b>                                 |  |                         |            |  |                         |            |
| Oil and gas operating<br>expenses <sup>(1)</sup> | \$ 17,030                                      | \$ 16,975               | \$ 34,005  | \$ 13,366                                | \$ 13,538               | \$ 26,904  |
| Exploration expense                              | \$ 1,375                                       | \$ 4,335                | \$ 5,710   | \$ —                                     | \$ 8,069                | \$ 8,069   |
| Depreciation, depletion and<br>amortization      | \$ 33,413                                      | \$ 28,279               | \$ 62,420  | \$ 18,707                                | \$ 21,732               | \$ 40,709  |
| <b>Average Sales Price:</b>                      |  |                         |            |  |                         |            |
| Oil (per<br>Bbl)                                 | \$ 64.06                                       | \$ 77.50                | \$ 72.57   | \$ 59.42                                 | \$ 70.01                | \$ 65.95   |

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|   |    |      |    |      |    |      |    |      |    |      |    |      |
|---|----|------|----|------|----|------|----|------|----|------|----|------|
| Natural gas (per Mcf)                                   | \$ | 6.26 | \$ | 6.46 | \$ | 6.35 | \$ | 6.55 | \$ | 6.72 | \$ | 6.63 |
| Average equivalent (Mcf)                                | \$ | 6.83 | \$ | 8.05 | \$ | 7.41 | \$ | 7.08 | \$ | 8.04 | \$ | 7.55 |
| <b>Expenses (\$ per Mcfe):</b>                          |    |      |    |      |    |      |    |      |    |      |    |      |
| Oil and gas operating <sup>(1)</sup>                    | \$ | 1.40 | \$ | 1.55 | \$ | 1.47 | \$ | 1.52 | \$ | 1.63 | \$ | 1.57 |
| Depreciation, depletion and amortization <sup>(2)</sup> | \$ | 2.73 | \$ | 2.57 | \$ | 2.69 | \$ | 2.12 | \$ | 2.60 | \$ | 2.37 |

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

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

|   | Nine Months Ended September 30, 2007 |                      |            | Nine Months Ended September 30, 2006 |                      |            |
|---|--------------------------------------|----------------------|------------|--------------------------------------|----------------------|------------|
|   | Onshore                              | Bois d'Arc<br>Energy | Total      | Onshore                              | Bois d'Arc<br>Energy | Total      |
| <i>(In thousands, except per unit amounts)</i>          |                                      |                      |            |                                      |                      |            |
| <b>Net Production Data:</b>                             |                                      |                      |            |                                      |                      |            |
| Oil (Mbbbls)  | 766                                  | 1,233                | 1,999      | 696                                  | 1,033                | 1,729      |
| Natural Gas (Mmcf)                                      | 28,462                               | 24,136               | 52,598     | 22,327                               | 16,388               | 38,715     |
| Natural Gas equivalent (Mmcfe)                          | 33,056                               | 31,535               | 64,591     | 26,501                               | 22,587               | 49,088     |
| <b>Revenues:</b>  |                                      |                      |            |                                      |                      |            |
| Oil sales   | \$ 42,993                            | \$ 83,844            | \$ 126,837 | \$ 39,808                            | \$ 69,215            | \$ 109,023 |
| Gas sales   | 193,101                              | 171,371              | 364,472    | 156,909                              | 119,221              | 276,130    |
| Total oil and gas sales                                 | \$ 236,094                           | \$ 255,215           | \$ 491,309 | \$ 196,717                           | \$ 188,436           | \$ 385,153 |
| <b>Expenses:</b>  |                                      |                      |            |                                      |                      |            |
| Oil and gas operating expenses <sup>(1)</sup>           | \$ 48,709                            | \$ 42,559            | \$ 91,268  | \$ 40,421                            | \$ 37,799            | \$ 78,220  |
| Exploration expense                                     | \$ 3,651                             | \$ 33,058            | \$ 36,709  | \$ 344                               | \$ 16,318            | \$ 16,662  |
| Depreciation, depletion and amortization                | \$ 91,021                            | \$ 85,573            | \$ 178,887 | \$ 51,567                            | \$ 52,620            | \$ 104,457 |
| <b>Average Sales Price:</b>                             |                                      |                      |            |                                      |                      |            |
| Oil (per Bbl)   | \$ 56.15                             | \$ 67.99             | \$ 63.45   | \$ 57.22                             | \$ 67.00             | \$ 63.06   |
| Natural gas (per Mcf)                                   | \$ 6.78                              | \$ 7.10              | \$ 6.93    | \$ 7.03                              | \$ 7.27              | \$ 7.13    |
| Average equivalent (Mcf)                                | \$ 7.14                              | \$ 8.09              | \$ 7.61    | \$ 7.42                              | \$ 8.34              | \$ 7.85    |
| <b>Expenses (\$ per Mcfe):</b>                          |                                      |                      |            |                                      |                      |            |
| Oil and gas operating <sup>(1)</sup>                    | \$ 1.47                              | \$ 1.35              | \$ 1.41    | \$ 1.53                              | \$ 1.67              | \$ 1.59    |
| Depreciation, depletion and amortization <sup>(2)</sup> | \$ 2.74                              | \$ 2.70              | \$ 2.76    | \$ 1.94                              | \$ 2.32              | \$ 2.12    |

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

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

*Revenues –*

Our oil and gas sales in the third quarter of 2007 of \$171.1 million increased \$41.8 million (32%) over our sales of \$129.3 million in the third quarter of 2006. The growth in sales resulted from our higher production in the third quarter of 2007. Production in the third quarter of 2007 increased 35% to 23.1 Bcfe as compared to production of 17.1 Bcfe in the third quarter of 2006. Our realized oil prices in the third quarter of 2007 averaged \$72.57 per barrel, 10% higher than the \$65.95 per barrel realized in the third quarter of 2006. Our average realized natural gas price of \$6.35 per Mcf in the third quarter of 2007 was 4% lower than our average natural gas price of \$6.63 per Mcf for the three months ended September 30, 2006.

Oil and gas sales from our onshore properties increased \$20.8 million to \$83.1 million for the three months ended September 30, 2007 from \$62.3 million for the third quarter of 2006. Our onshore production in the third quarter of 2007 increased by 38% to 12.2 Bcfe over production in the third quarter of 2006 of 8.8 Bcfe. The production increase was attributable to our development drilling activity primarily in our East Texas/North Louisiana and South Texas regions. Our average onshore realized crude oil price increased by 8% and our average onshore realized natural gas price decreased by 4% in the third quarter of 2007 as compared to the third quarter of 2006. Oil and gas sales from Bois d'Arc Energy's operations for the third quarter of 2007 of \$88.0 million increased \$21.0 million or 31% compared with the third quarter of 2006. Bois d'Arc Energy's production of 10.9 Bcfe in the third quarter of 2007 increased by 31% from the production in the third quarter of 2006 of 8.3 Bcfe. The increase was due primarily to production from new wells we drilled. Bois d'Arc Energy's average oil price increased by 11% and Bois d'Arc Energy's average natural gas price decreased by 4% in the third quarter of 2007 as compared to the third quarter of 2006.



Our oil and gas sales in the first nine months of 2007 of \$491.3 million increased \$106.1 million (28%) over our sales of \$385.2 million in the first nine months of 2006. The growth in sales was attributable to our higher production. Production in the first nine months of 2007 increased 32% to 64.6 Bcfe as compared to production of 49.1 Bcfe in the first nine months of 2006. Our realized oil prices in the first nine months of 2007 averaged \$63.45 per barrel, slightly higher than the \$63.06 per barrel realized in the first nine months of 2006. Our average realized natural gas price of \$6.93 per Mcf in the first nine months of 2007 was 3% less than our average natural gas price of \$7.13 per Mcf for the nine months ended September 30, 2006.

Oil and gas sales from our onshore properties increased \$39.4 million to \$236.1 million for the nine months ended September 30, 2007 from \$196.7 million for the first nine months of 2006. Our onshore production in the first nine months of 2007 increased by 25% to 33.1 Bcfe from production in the first nine months of 2006 of 26.5 Bcfe. The production increase was attributable to our development drilling activity primarily in our East Texas/North Louisiana and South Texas regions. Our average onshore realized crude oil price decreased by 2% and our average onshore realized natural gas price decreased by 3% in the first nine months of 2007 as compared to the first nine months of 2006. Oil and gas sales from Bois d'Arc Energy's operations for the first nine months of 2007 of \$255.2 million increased \$66.8 million or 35% as compared with the first nine months of 2006. Bois d'Arc Energy's production of 31.5 Bcfe in the first nine months of 2007 increased by 40% from the production in the first nine months of 2006 of 22.6 Bcfe. The increase was due to production from new wells and restoration of 3.5 Bcfe of deferred production Bois d'Arc Energy had in the first half of 2006 which resulted from the 2005 hurricanes. Bois d'Arc Energy's average oil price increased by 1% and Bois d'Arc Energy's average natural gas price decreased by 2% in the first nine months of 2007 as compared to the first nine months of 2006.

#### *Costs and Expenses -*

Our oil and gas operating expenses, including production taxes, increased \$7.1 million (26%) to \$34.0 million in the third quarter of 2007 from \$26.9 million in the third quarter of 2006. Oil and gas operating expenses from our onshore operations increased \$3.6 million (27%) to \$17.0 million from \$13.4 million in the third quarter of 2006 primarily due to the 38% increase in production in the third quarter of 2007. Oil and gas operating expenses per equivalent Mcf produced for our onshore operations decreased \$0.12 (8%) to \$1.40 in the third quarter of 2007 from \$1.52 in the third quarter of 2006. Bois d'Arc Energy's oil and gas operating costs for the third quarter of 2007 of \$17.0 million increased \$3.5 million (25%) from \$13.5 million in the third quarter of 2006. Oil and gas operating expenses per equivalent Mcf produced for Bois d'Arc Energy's operations decreased \$.07 (4%) to \$1.55 in the third quarter of 2007 from \$1.63 in the third quarter of 2006. The decrease is due to the fixed nature of a substantial portion of Bois d'Arc Energy's lifting costs and lower repair and maintenance costs in 2007.

Oil and gas operating expenses increased \$13.1 million (17%) to \$91.3 million in the first nine months of 2007 from \$78.2 million in the first nine months of 2006. Onshore oil and gas operating expenses increased \$8.3 million (21%) as the result of the higher production level and the costs associated with new wells. Onshore oil and gas operating expenses per Mcfe produced decreased \$0.06 to \$1.47 for the nine months ended September 30, 2007 from \$1.53 for the same period in 2006. Offshore oil and gas operating expenses increased \$4.8 million (13%) to \$42.6 million for the first nine months of 2007 primarily due to lifting costs associated with new wells placed on production. Oil and gas operating expenses per equivalent Mcf produced for Bois d'Arc Energy operations decreased \$.32 (19%) to \$1.35 in the first nine months of 2007 from \$1.67 in the first nine months of 2006. The decrease is due to the fixed nature of a substantial portion of Bois d'Arc Energy's lifting costs and lower repair and maintenance costs in 2007. Operating expenses in 2006 included \$3.1 million of offshore repair costs related to the 2005 hurricanes.

In the third quarter of 2007, we had \$5.7 million of exploration expense as compared to \$8.1 million in the third quarter of 2006. Exploration expense in the third quarter of 2007 primarily related to an exploratory dry hole drilled and the acquisition of seismic data. In the third quarter of 2006, we had one offshore exploratory dry hole and the cost

of seismic data acquired. In the first nine months of 2007, we had \$36.7 million of exploration expense as compared to \$16.7 million in the first nine months of 2006. Exploration expense in the first nine months of 2007 primarily related to five offshore and three onshore exploratory dry holes and the cost of seismic data acquired by Bois d'Arc Energy. The provision in the first nine months of 2006 primarily related to three offshore exploratory dry holes and seismic data acquired by Bois d'Arc Energy.

Depreciation, depletion and amortization ("DD&A") increased \$21.7 million (53%) to \$62.4 million in the third quarter of 2007 from DD&A expense of \$40.7 million in the third quarter of 2006. DD&A for our onshore properties increased \$14.7 million to \$33.4 million for the three months ended September 30, 2007 from \$18.7 million in the third quarter of 2006 due to our 38% higher production level and an increase in our onshore average DD&A rate. Our onshore DD&A per equivalent Mcf produced increased by \$0.61 to \$2.73 for the three months ended September 30, 2007 from \$2.12 for the three months ended September 30, 2006. This increased rate was primarily attributable to the higher capitalized costs associated with our drilling program and our acquisitions completed in 2006 and 2007. DD&A related to Bois d'Arc Energy for the third quarter of 2007 increased \$6.6 million to \$28.3 million from \$21.7 million in the third quarter of 2006 million due primarily to the 31% higher production level. The DD&A rate per Mcfe produced for Bois d'Arc Energy's operations in the third quarter of 2007 decreased to \$2.57 per Mcfe from \$2.60 in the third quarter of 2006.

For the nine months ended September 30, 2007, DD&A increased \$74.4 million (71%) to \$178.9 million from \$104.5 million for the nine months ended September 30, 2006. DD&A for our onshore properties increased \$39.4 million (77%) to \$91.0 million from \$51.6 million in the first nine months of 2006. The increase is due to the 25% increase in onshore production and the increased amortization rate of \$2.74 per Mcfe in the first half of 2007 as compared to \$1.94 per Mcfe for the first nine months of 2006. The higher rate is attributable to higher costs of the acquisitions we made in 2006 and 2007 and higher drilling costs associated with our onshore drilling program. The DD&A associated with Bois d'Arc Energy's offshore properties of \$85.6 million for the first nine months of 2007 increased \$33.0 million (63%) from \$52.6 million for the nine months ended September 30, 2006 due to the 40% increase in produced volumes and a higher amortization rate. The DD&A rate per Mcfe produced for Bois d'Arc Energy's operations in the first nine months of 2007 increased \$0.38 per Mcfe to \$2.70 per Mcfe from \$2.32 in the first nine months of 2006 due to higher capitalized costs related to Bois d'Arc Energy's drilling program.

Impairment expense of \$0.8 million for the three months ended September 30, 2007 and \$1.4 million for the three months ended September 30, 2006 relate to impairments of minor valued fields. Impairment expense for the first nine months of 2007 of \$0.8 million decreased \$9.4 million from impairment expense of \$10.2 million for the nine months ended September 30, 2006 mainly as a result of the impairment in 2006 of a property held for resale for which the plan to sell the property was subsequently cancelled.

General and administrative expense, which is reported net of overhead reimbursements, increased by \$1.3 million to \$8.7 million for the third quarter of 2007 as compared to general and administrative expense of \$7.4 million for the third quarter of 2006. Included in general and administrative expense is stock-based compensation of \$4.3 million and \$3.3 million for the three months ended September 30, 2007 and 2006, respectively. For the first nine months of 2007, general and administrative expense increased to \$26.5 million from \$22.7 million for the nine months ended September 30, 2006. These increases primarily reflect the additional personnel we have added since the beginning of 2007. Included in general and administrative expense is stock-based compensation of \$12.9 million and \$9.8 million for the nine months ended September 30, 2007 and 2006, respectively.

Interest expense increased \$4.5 million (67%) to \$11.2 million for the third quarter of 2007 from interest expense of \$6.7 million in the third quarter of 2006. The increase was primarily due to increased borrowings under our bank credit facilities during the third quarter of 2007 and higher interest rates. The average borrowings outstanding increased to \$427.5 million during the third quarter of 2007 as compared to \$180.5 million in the third quarter of 2006. The average interest rate we were charged on the outstanding borrowings under our credit facilities increased to 6.9% in the third quarter of 2007 as compared to 6.8% in the third quarter of 2006. Interest expense for the nine months ended September 30, 2007 increased \$11.6 million (63%) to \$29.9 million from \$18.3 million for the nine months ended September 30, 2006. The increase is attributable to higher average borrowings under the bank credit facilities and higher interest rates. Average borrowings outstanding increased to \$374.0 million during the first nine months of 2007 as compared to \$157.0 million for the nine months ended September 30, 2006. The average interest rate under our bank credit facilities increased to 6.7% in the first nine months of 2007 as compared to 6.4% in the first nine months of 2006.

We had no outstanding derivatives during the three months and nine months ended September 30, 2007. We had natural gas price derivatives outstanding during the three and nine months ended September 31, 2006 and we did not designate these derivatives as cash flow hedges in 2006 and, accordingly, we recognized gains from the change in the fair value of these liabilities in 2006. During 2006, the fair value of our liability for these derivatives decreased during the nine months ended September 30, 2006 resulting in net gains of \$1.2 million and \$10.6 million for the three months and nine months ended September 30, 2006, respectively.

Income tax expense increased \$4.9 million (30%) to \$21.6 million for the three months ended September 30, 2007 from income tax expense of \$16.7 million for the third quarter of 2006. The increase was mainly due to higher income during the third quarter of 2007. Income tax expense decreased \$5.8 million (10%) to \$56.0 million for the nine months ended September 30, 2007 from income tax expense of \$61.8 million for the first nine months of 2006. The decrease was primarily due to lower income during the first nine months of 2007.

Minority interest in earnings of Bois d'Arc Energy of \$10.8 million for the three months ended September 30, 2007 increased \$4.8 million (80%) from the minority interest in earnings of \$6.0 million for the comparable period in 2006 due to Bois d'Arc Energy's higher net income for the three months ended September 30, 2007. Minority interest in earnings of Bois d'Arc Energy of \$25.6 million for the first nine months of 2007 increased \$3.2 million (14%) from the minority interest in earnings of \$22.4 million for the comparable period in 2006 due to Bois d'Arc Energy's higher net income for the nine months ended September 30, 2007.

We reported net income of \$16.4 million for the three months ended September 30, 2007, as compared to \$17.0 million for the three months ended September 30, 2006. The net income per share for the third quarter of 2007 was \$0.37 on weighted average diluted shares outstanding of 44.4 million as compared to \$0.39 for the third quarter of 2006 on weighted average diluted shares outstanding of 43.6 million. Net income for the nine months ended September 30, 2007 was \$47.2 million, as compared to net income of \$62.3 million for the nine months ended September 30, 2006. Net income per share for the nine months ended September 30, 2007 was \$1.05 on weighted average diluted shares outstanding of 44.3 million as compared to net income per share of \$1.42 on weighted average diluted shares outstanding of 43.5 million for the nine months ended September 30, 2006. Increases in exploration expense and DD&A in the first nine months of 2007 as compared to the same period in 2006 offset the higher oil and gas sales in the first nine months of 2007. The 2006 results also included a \$10.6 million gain from derivatives.

### **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 nine months ended September 30, 2007, our primary sources of funds were net cash flow from operations of \$324.9 million and net borrowings under our credit facilities of \$142.0 million. Our net cash flow from operating activities increased \$50.6 million (18%) in the first nine months of 2007 from \$274.3 million for the nine months ended September 30, 2006. This increase is primarily due to the higher revenues we had in the first nine months of 2007 driven by the 32% increase in our oil and gas production.

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 nine months of 2007, we incurred capital expenditures of \$454.8 million primarily for our acquisition, development and exploration activities.



The following table summarizes our capital expenditure activity, on an accrual basis, for the nine months ended September 30, 2007 and 2006:

|  | Nine Months Ended September 30, 2007 |                      |            | Nine Months Ended September 30, 2006 |                      |            |
|--|--------------------------------------|----------------------|------------|--------------------------------------|----------------------|------------|
|  | Onshore                              | Bois d'Arc<br>Energy | Total      | Onshore                              | Bois d'Arc<br>Energy | Total      |
|  | <i>(In thousands)</i>                |                      |            |                                      |                      |            |
| Acquisitions of oil and gas properties | \$ 31,189                            | \$ —                 | \$ 31,189  | \$ 68,175                            | \$ 18,178            | \$ 86,353  |
| Leasehold costs                        | 7,546                                | 1,727                | 9,273      | 3,383                                | 2,108                | 5,491      |
| Development drilling                   | 231,870                              | 41,268               | 273,138    | 123,916                              | 39,027               | 162,943    |
| Exploratory drilling                   | 10,424                               | 82,275               | 92,699     | 75                                   | 87,771               | 87,846     |
| Other development                      | 5,775                                | 41,799               | 47,574     | 17,389                               | 44,714               | 62,103     |
|  | 286,804                              | 167,069              | 453,873    | 212,938                              | 191,798              | 404,736    |
| Other                                  | 806                                  | 83                   | 889        | 388                                  | 1,595                | 1,983      |
|  | \$ 287,610                           | \$ 167,152           | \$ 454,762 | \$ 213,326                           | \$ 193,393           | \$ 406,719 |

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 and for seismic data acquisitions. Consequently, we have a significant degree of flexibility to adjust the level of our capital expenditures as circumstances warrant. As of September 30, 2007 we have contracted for the services of onshore drilling rigs through September 2008 at an aggregate cost of \$24.4 million. As of September 30, 2007, Bois d'Arc Energy has long term commitments to acquire seismic data totaling \$8.3 million through December 2008 and has commitments for drilling services through January 31, 2008 of \$6.1 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 \$60.4 million and \$44.3 million as of September 30, 2007 and 2006, respectively.

We spent \$255.6 million and \$144.8 million on our onshore development and exploration activities during the nine months ended September 30, 2007 and 2006, respectively. We expect to spend approximately \$330.0 million for onshore development and exploration projects for all of 2007. Bois d'Arc Energy spent \$167.1 million and \$173.6 million on offshore development and exploration activities in the nine months ended September 30, 2007 and 2006, respectively, and expects to spend \$215.0 million for offshore capital expenditures for all of 2007. Development and exploration activities are funded primarily with operating cash flow and with borrowings under our bank credit facilities.

We spent \$31.2 million on an acquisition of oil and gas properties in South Texas that was completed in June 2007. We do not have a specific acquisition budget for 2007 since the timing and size of acquisitions are not predictable. We intend to use borrowings under our bank credit facilities, or other debt or equity financings to the extent available, to finance significant acquisitions. The availability and attractiveness of these sources of financing will depend upon a number of factors, some of which will relate to our financial condition and performance and some of which will be beyond our control, such as prevailing interest rates, oil and natural gas prices and other market conditions.

We have a \$600.0 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 September 30, 2007 the borrowing base was \$400.0 million, \$78.0 million of which was available. The borrowing base was increased to \$500.0 million on November 5, 2007. 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 September 30, 2007. We also have \$175.0 million of 6 % senior notes due March 1, 2012, with interest payable semiannually on each March 1 and September 1. The notes are unsecured obligations and are guaranteed by all of our wholly owned subsidiaries.

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Bois d'Arc Energy has a bank credit facility with the Bank of Nova Scotia and several other banks. The credit facility matures on May 11, 2009. Borrowings under the credit facility are limited to a borrowing base that is redetermined semi-annually based on the banks' estimates of the future net cash flows of Bois d'Arc Energy's oil and natural gas properties. The determination of the borrowing base is at the sole discretion of the administrative agent and the bank group. The borrowing base was \$225.0 million as of September 30, 2007, and availability under the borrowing base was \$125.0 million. Indebtedness under the credit facility is secured by substantially all of Bois d'Arc Energy and its subsidiaries' assets, and all of Bois d'Arc Energy's subsidiaries are guarantors of the indebtedness. The credit facility contains covenants that restrict the payment of cash dividends in excess of \$5.0 million, borrowings, sales of assets, loans to others, capital expenditures, investments, merger activity, hedging contracts, liens and certain other transactions without the prior consent of the lenders and requires Bois d'Arc Energy to maintain a ratio of current assets, including the availability under the bank credit facility, to current liabilities of at least one-to-one and a ratio of indebtedness to earnings before interest, taxes, depreciation, depletion, and amortization, exploration and impairment expense of no more than 2.5-to-one.

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, 2006 is incorporated herein by reference.

Effective January 1, 2007 we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109 ("FIN 48") which clarifies the accounting and disclosures for uncertainty in income tax positions, as defined. The adoption of FIN 48 had no impact on the amounts recorded by us related to uncertain tax positions.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 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. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and is generally applied prospectively. We are currently evaluating the impact of this statement on our consolidated financial statements.

### **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 nine months ended September 30, 2007, 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 \$1.9 million and a \$1.00 change in the price per Mcf of natural gas would have changed our cash flow by approximately \$51.3 million.

### **Interest Rates**

At September 30, 2007, we had total long-term debt of \$597.0 million. Of this amount, \$175.0 million bears interest at a fixed rate of 6 %. We had \$422.0 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 September 30, 2007, a 100 basis point change in interest rates would change our interest expense for the nine month period ended September 30, 2007 by approximately \$3.2 million.

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#### **ITEM 4: CONTROLS AND PROCEDURES**

As of September 30, 2007, 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 September 30, 2007 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 September 30, 2007, that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.



**PART II — OTHER INFORMATION**

**ITEM 6:**

**EXHIBITS**

| 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: November 7, 2007 /s/ M. JAY ALLISON  
**M. Jay Allison**, Chairman, President and Chief  
Executive Officer (Principal Executive Officer)

Date: November 7, 2007 /s/ ROLAND O. BURNS  
**Roland O. Burns**, Senior Vice President,  
Chief Financial Officer, Secretary, and Treasurer  
(Principal Financial and Accounting Officer)

