

COMSTOCK RESOURCES INC

Form 10-Q/A

January 27, 2005

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 2)

(Mark One)

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

OR

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

Commission File No. 0-16741

COMSTOCK RESOURCES, INC.

(Exact name of registrant as specified in its charter)

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 filing requirements for the past 90 days.

Yes No

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

Yes No

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

COMSTOCK RESOURCES, INC.

QUARTERLY REPORT

For The Quarter Ended September 30, 2004

INDEX

	Page
<u>EXPLANATORY NOTE</u>	3
<u>PART I. Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited):</u>	
Consolidated Financial Statements of Comstock Resources, Inc.:	
<u>Consolidated Balance Sheets - September 30, 2004 and December 31, 2003</u>	5
<u>Consolidated Statements of Operations - Three Months and Nine Months ended September 30, 2004 and 2003</u>	6
<u>Consolidated Statement of Stockholders' Equity - Nine Months ended September 30, 2004</u>	7
<u>Consolidated Statements of Cash Flows - Nine Months ended September 30, 2004 and 2003</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Independent Accountants' Review Report</u>	22
Consolidated Financial Statements of Bois d'Arc Energy, LLC.:	
<u>Consolidated Balance Sheet - September 30, 2004</u>	23
<u>Consolidated Combined Statement of Operations - From Inception (July 16, 2004) to September 30, 2004</u>	24
<u>Consolidated Combined Statement of Changes in Equity - From Inception (July 16, 2004) to September 30, 2004</u>	25
<u>Consolidated Combined Statement of Cash Flows - From Inception (July 16, 2004) to September 30, 2004</u>	26
<u>Notes to Interim Consolidated Financial Statements</u>	27
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
<u>PART II. Other Information</u>	
<u>Item 6. Exhibits and Reports on Form 8-K</u>	37
<u>Awareness Letter</u>	
<u>Section 302 Certification of the CEO</u>	
<u>Section 302 Certification of the CFO</u>	
<u>Certification for the CEO Required by Section 906</u>	
<u>Certification for the CFO Required by Section 906</u>	

Table of Contents

EXPLANATORY NOTE

This quarterly report on Form 10-Q/A is being filed to restate the financial statements for Comstock Resources, Inc. (the Company) for the three and nine months ended September 30, 2004 to correct the accounting for the Company's ownership interest in Bois d'Arc Energy, LLC (Bois d'Arc Energy) which was formed on July 16, 2004. Upon formation of Bois d'Arc Energy, the Company started consolidating Bois d'Arc Energy's results of operations. Under the terms of Bois d'Arc Energy's operating agreement, the Company jointly shares management of Bois d'Arc Energy with the principals of Bois d'Arc Resources, Ltd. Upon further consideration of Bois d'Arc Energy's formation documents, the Company has concluded that consolidation is precluded due to its inability to control Bois d'Arc Energy pursuant to Bois d'Arc Energy's operating agreement. Consequently, the Company has restated the financial statements to account for the Company's 59.9% interest in Bois d'Arc Energy under the proportionate consolidation method.

This Amendment No. 2 on Form 10-Q amends the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 originally filed on November 9, 2004 and amended on December 14, 2004. The financial statements contained in Item I, Part I have been restated and Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations have been amended to correctly reflect the Company's investment in Bois d'Arc Energy for the period ended September 30, 2004. No other periods were affected by the restatement. The restatement did not have any impact on the Company's consolidated stockholders' equity, net income or earnings per share for any periods presented. This amendment does not reflect events occurring after the initial filing of the original Quarterly Report on Form 10-Q filed on November 9, 2004, as amended on December 14, 2004 or modify or update disclosures presented therein, except as discussed above.

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

4

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

	September 30, 2004 (As Restated)	December 31, 2003
	<i>(In thousands)</i>	
ASSETS		
Cash and Cash Equivalents	\$ 21,305	\$ 5,343
Accounts Receivable:		
Oil and gas sales	22,572	21,868
Joint interest operations	11,204	9,524
Other Current Assets	5,611	4,802
Total current assets	60,692	41,537
Property and Equipment:		
Unevaluated oil and gas properties	13,756	18,075
Oil and gas properties, successful efforts method	1,145,656	1,052,564
Other	4,226	4,047
Accumulated depreciation, depletion and amortization	(422,229)	(376,000)
Net property and equipment	741,409	698,686
Receivable from Bois d'Arc Energy	60,657	
Other Assets	13,179	6,133
	\$ 875,937	\$ 746,356

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Portion of Long-Term Debt	\$ 975	\$ 623
Accounts Payable	39,663	38,713
Accrued Expenses	12,286	10,561
Total current liabilities	52,924	49,897
Long-Term Debt, less current portion	381,000	306,000
Deferred Taxes Payable	91,911	81,629
Reserve for Future Abandonment Costs	17,762	19,174
Stockholders' Equity:		
Common stock \$0.50 par, 50,000,000 shares authorized, 34,776,742 and 34,308,861 shares outstanding at September 30, 2004 and December 31, 2003, respectively	17,388	17,154
Additional paid-in capital	168,911	166,242
Retained earnings	146,041	115,032

Deferred compensation-restricted stock grants		(8,772)
Total stockholders' equity	332,340	289,656
	\$ 875,937	\$ 746,356

The accompanying notes are an integral part of these statements.

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

	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,		September 30,	
	2004	2003	2004	2003
	(As		(As	
	Restated)		Restated)	
	<i>(In thousands, except per share amounts)</i>			
Oil and gas sales	\$ 63,202	\$ 56,866	\$ 190,471	\$ 182,603
Operating expenses:				
Oil and gas operating	12,482	11,812	37,588	33,708
Exploration	6,728	1,225	11,907	3,366
Depreciation, depletion and amortization	15,601	15,163	47,138	44,867
General and administrative, net	3,344	1,508	9,316	4,983
 Total operating expenses	 38,155	 29,708	 105,949	 86,924
 Income from operations	 25,047	 27,158	 84,522	 95,679
Other income (expenses):				
Interest income	495	16	529	59
Other income	43	73	129	164
Interest expense	(4,803)	(7,370)	(15,594)	(22,648)
Loss on early extinguishment of debt			(19,599)	
Loss on derivatives	(553)		(553)	
Formation costs	(982)		(982)	
 Total other expenses	 (5,800)	 (7,281)	 (36,070)	 (22,425)
 Income before income taxes and cumulative effect of change in accounting principle	 19,247	 19,877	 48,452	 73,254
Provision for income taxes	(6,929)	(6,957)	(17,443)	(25,639)
 Income before cumulative effect of change in accounting principle	 12,318	 12,920	 31,009	 47,615
 Cumulative effect of change in accounting principle, net of income taxes				 675
 Net income	 12,318	 12,920	 31,009	 48,290
Preferred stock dividends				(573)
 Net income attributable to common stock	 \$ 12,318	 \$ 12,920	 \$ 31,009	 \$ 47,717

Net income per share before cumulative effect of change in accounting principle:								
Basic	\$	0.36	\$	0.38	\$	0.91	\$	1.50
Diluted	\$	0.34	\$	0.36	\$	0.86	\$	1.36
Net income per share:								
Basic	\$	0.36	\$	0.38	\$	0.91	\$	1.52
Diluted	\$	0.34	\$	0.36	\$	0.86	\$	1.38
Weighted average common and common stock equivalent shares outstanding:								
Basic		34,204		33,562		34,091		31,336
Diluted		36,113		35,398		36,037		34,964

The accompanying notes are an integral part of these statements.

Table of Contents**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES**

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

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

The accompanying notes are an integral part of these statements.

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

	Nine Months Ended September 30, 2004 2003 (As Restated) (In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 31,009	\$ 48,290
Adjustments to reconcile net income to net cash provided by operating activities:		
Dry hole costs and lease impairments	13,159	2,248
Depreciation, depletion and amortization	47,138	44,867
Stock-based compensation	3,494	239
Deferred income taxes	13,054	25,639
Debt issuance costs amortization	739	900
Loss on derivatives	553	
Loss on early extinguishment of debt	19,599	
Decrease in accounts receivable	10,776	(6,583)
Increase in other current assets	(802)	213
Decrease in accounts payable and accrued expenses	(19,966)	3,971
Net cash provided by operating activities	118,753	119,109
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and acquisitions	(103,563)	(62,159)
Acquisition deposit	(6,317)	
Formation of Bois d'Arc Energy, net of cash acquired	(49,510)	
Net cash used for operating activities	(159,390)	(62,159)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	228,546	16,401
Proceeds from issuance of senior notes	175,000	
Debt issuance costs	(5,963)	
Principal payments on debt	(344,067)	(70,659)
Proceeds from issuance of common stock	3,083	1,971
Dividends paid on preferred stock		(573)
Net cash provided by (used for) financing activities	56,599	(52,860)
Net decrease in cash and cash equivalents	15,962	4,090
Cash and cash equivalents, beginning of period	5,343	1,682

Cash and cash equivalents, end of period	\$ 21,305	\$ 5,772
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The accompanying notes are an integral part of these statements.

Table of Contents

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004
(Unaudited)

(1) SIGNIFICANT ACCOUNTING POLICIES -

Basis of Presentation

In management's opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position of Comstock Resources, Inc. and subsidiaries (Comstock or the Company) as of September 30, 2004 and the related results of operations and cash flows for the nine months ended September 30, 2004 and 2003.

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to those rules and regulations, although Comstock believes that the disclosures made are adequate to make the information presented not misleading. These unaudited consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in Comstock's Annual Report on Form 10-K for the year ended December 31, 2003.

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

Reclassifications

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

Formation of Bois d'Arc Energy

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

In July 2004, each of the Bois d'Arc Participants and Comstock Offshore contributed to Bois d'Arc Energy substantially all of their Gulf of Mexico related assets and assigned their related liabilities, including certain debt, in

exchange for membership interests in Bois d Arc Energy. The membership interests issued in exchange for the contributions were determined by using a valuation of the properties contributed by each

Table of Contents**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(continued)*

party contributor relative to the total value of all properties contributed. Comstock Offshore contributed its interests in its Gulf of Mexico properties and assigned to Bois d Arc Energy \$83.2 million of related debt in exchange for an approximately 59.9% membership interest in Bois d Arc Energy (29,935,761 Bois d Arc Energy units out of 50,000,000 Bois d Arc Energy units issued). The Bois d Arc Participants contributed their offshore oil and natural gas properties as well as ownership of Bois d Arc Offshore, Ltd., the operator of the properties, and assigned to Bois d Arc Energy \$28.2 million of related liabilities in exchange for an approximately 40.1% aggregate membership interest in Bois d Arc Energy. The Bois d Arc Participants also received \$27.6 million in cash to equalize the amount that Comstock Offshore's debt exceeded its proportional share of the liabilities assigned. Bois d Arc Energy also reimbursed Comstock Offshore \$12.7 million and Bois d Arc Resources \$0.8 million for advances made under the exploration joint venture for undrilled prospects.

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

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

Under the terms of the Bois d Arc Energy operating agreement, management of Bois d Arc Energy is shared jointly by Comstock and the principals of Bois d Arc Resources. Management and operating decisions are made based on unanimous agreement between the parties. Because the Company has the ability to exercise significant influence over Bois d Arc Energy, but not control it, and because Bois d Arc Energy is similar to a partnership in that it maintains a specific ownership for each member, the Company accounts for its interest in Bois d Arc Energy's assets, liabilities and operations under the proportionate consolidation method in accordance with Emerging Issues Task Force (EITF) 00-1,

Investor Balance Sheet and Income Statement Display Under the Equity Method for Investments in Partnerships and Certain other Ventures and EITF 03-16 Accounting for Investments in Limited Liability Companies.

Set forth in the following table is certain unaudited pro forma financial information for the nine months ended September 30, 2004 and 2003. This information has been prepared assuming that the formation of Bois d Arc Energy was consummated on January 1, 2003 and is based on estimates and assumptions deemed appropriate by Comstock. A pro forma adjustment has been made to add back the formation costs that were included in the operating results for the nine months ended September 30, 2004. The pro forma information is presented for illustrative purposes only. If the transactions had occurred in the past, Comstock's operating results might have been different from those presented in

the following table. The pro forma information should not be relied upon as an indication of the operating results that Comstock

Table of Contents**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(continued)*

would have achieved if the transactions had occurred on January 1, 2003. The pro forma information also should not be used as an indication of the future results that Comstock will achieve after the transaction.

	For the Nine Months Ended September 30,	
	2004	2003
	(As Restated)	(As Restated)
	<i>(In thousands, except per share amounts)</i>	
Oil and gas sales	\$ 186,907	\$ 183,833
Total operating expenses	(104,361)	(84,091)
Total other income (expenses)	(33,552)	(20,883)
Income before income taxes and cumulative effect of change in accounting principle	48,994	78,859
Provision for income taxes	(17,638)	(27,601)
Income before cumulative effect of change in accounting principle	31,356	51,258
Cumulative effect of change in accounting principle, net of income taxes		675
Preferred stock dividends		(573)
Net income attributable to common stock	\$ 31,356	\$ 51,360
Net income per share before cumulative effect of change in accounting principle:		
Basic	\$ 0.92	\$ 1.62
Diluted	\$ 0.87	\$ 1.47
Net income per share:		
Basic	\$ 0.92	\$ 1.64
Diluted	\$ 0.87	\$ 1.49

Receivable from Bois d Arc Energy

In connection with the formation of Bois d Arc Energy, Comstock provided a revolving line of credit with a maximum outstanding amount of \$200.0 million, of which \$151.1 million was outstanding at September 30, 2004. Approximately \$60.7 million of outstanding balance is attributable to the Bois d Arc Participants and is reflected in the

accompanying balance sheet as a Receivable from Bois d Arc Energy. Borrowings under the credit facility bear interest at the Bois d Arc Energy s option at either LIBOR plus 2% or the base rate (which is the higher of the prime rate or the federal funds rate) plus 0.75%. The credit facility matures on December 31, 2005. Interest expense of \$1.1 million was charged to Bois d Arc Energy by the Company under the credit facility during the period from Inception to September 30, 2004. Approximately \$0.5 million was attributable to Bois d Arc Participants and is included in interest income in the consolidated statement of operations.

In consideration to the credit facility, Bois d Arc Energy agreed to become a guarantor with respect to Comstock s \$400 million bank credit

Table of Contents

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

facility and Comstock's 6 7/8% senior notes due 2012. Bois d'Arc Energy's operating agreement provides that it is to be dissolved and liquidated if a financing transaction does not occur by May 1, 2005 or such later date as determined by Bois d'Arc Energy's board of managers. A financing transaction is defined as an initial public offering or another transaction that generates sufficient proceeds to repay all indebtedness owing to Comstock under the credit facility, which will also result in Bois d'Arc Energy being released as a guarantor of Comstock's debt. Bois d'Arc Energy intends to repay the indebtedness owing to Comstock from the net proceeds of an initial public offering and through the issuance of shares of common stock to Comstock.

Formation Costs

The consolidated financial statements include \$1.0 million of costs incurred in connection with the formation of Bois d'Arc Energy including a termination fee for the cancellation of a service agreement for accounting and administrative services provided to Bois d'Arc Offshore Ltd. The fee is payable in monthly installments over a two year period beginning October 2004.

Restatement for Ownership Interest in Bois d'Arc Energy

In January 2005, the Company determined that it had incorrectly accounted for its ownership interest in Bois d'Arc Energy as of and for the three and nine month periods ended September 30, 2004. Upon formation of Bois d'Arc Energy, the Company started consolidating Bois d'Arc Energy. Pursuant to the terms of Bois d'Arc Energy's operating agreement, the Company jointly shares management of Bois d'Arc Energy with the principals of Bois d'Arc Resources. Upon further consideration of Bois d'Arc Energy's formation documents, the Company has concluded that consolidation is precluded due to its inability to control Bois d'Arc Energy pursuant to Bois d'Arc Energy's operating agreement. The accompanying financial statements have been restated to account for the Company's 59.9% interest in Bois d'Arc Energy under the proportionate consolidation method from July 16, 2004 (inception of Bois d'Arc Energy) to September 30, 2004.

The effect of the restatement on the consolidated balance sheet as of September 30, 2004, the consolidated statement of operations for the three month and nine month periods ended September 30, 2004 and the consolidated statement of cash flows for the nine month period ended September 30, 2004 is as follows:

Table of Contents**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(continued)*

	As of September 30, 2004		
	As Previously Reported	Adjustments (In thousands)	As Restated
Balance Sheet Data:			
ASSETS:			
Cash and Cash Equivalents	\$ 29,079	\$ (7,774)	\$ 21,305
Accounts Receivable:			
Oil and gas sales	25,990	(3,418)	22,572
Joint interest operations	14,799	(3,595)	11,204
Other Current Assets	5,616	(5)	5,611
Total current assets	75,484	(14,792)	60,692
Property and Equipment:			
Unevaluated oil and gas properties	17,398	(3,642)	13,756
Oil and gas properties, successful efforts method	1,330,997	(185,341)	1,145,656
Other	4,997	(771)	4,226
Accumulated depreciation, depletion and amortization	(490,747)	68,518	(422,229)
Net property and equipment	862,645		