

COMSTOCK RESOURCES INC

Form 10-K

February 26, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2009**
- OR**
- TRANSITION REPORT PURSUANT TO SECTIONS 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from        to**

**Commission File No. 001-03262  
COMSTOCK RESOURCES, INC.**  
*(Exact name of registrant as specified in its charter)*

**NEVADA**  
*(State or other jurisdiction of  
incorporation or organization)*

**94-1667468**  
*(I.R.S. Employer  
Identification Number)*

**5300 Town and Country Blvd., Suite 500, Frisco, Texas 75034**  
*(Address of principal executive offices including zip code)*

**(972) 668-8800**  
*(Registrant's telephone number and area code)*

Securities registered pursuant to Section 12(b) of the Act:

**Common Stock, \$.50 Par Value  
Preferred Stock Purchase Rights**  
*(Title of class)*

**New York Stock Exchange  
New York Stock Exchange**  
*(Name of exchange on which registered)*

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes  No

As of February 26, 2010, there were 47,105,606 shares of common stock outstanding.

The aggregate market value of the common stock held by non-affiliates of the registrant, based on the closing price of common stock on the New York Stock Exchange on June 30, 2009 (the last business day of the registrant's most recently completed second fiscal quarter), was \$1.5 billion.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Definitive Proxy Statement for the 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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**COMSTOCK RESOURCES, INC.**

**ANNUAL REPORT ON FORM 10-K**

**For the Fiscal Year Ended December 31, 2009**

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

The information contained in this report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are identified by their use of terms such as expect, estimate, anticipate, project, plan, intend, believe and similar. All statements, other than statements of historical facts, included in this report, are forward-looking statements, including statements mentioned under Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations, regarding:

- amount and timing of future production of oil and natural gas;
- the availability of exploration and development opportunities;
- amount, nature and timing of capital expenditures;
- the number of anticipated wells to be drilled after the date hereof;
- our financial or operating results;
- our cash flow and anticipated liquidity;
- operating costs including lease operating expenses, administrative costs and other expenses;
- finding and development costs;
- our business strategy; and
- other plans and objectives for future operations.

Any or all of our forward-looking statements in this report may turn out to be incorrect. They can be affected by a number of factors, including, among others:

- the risks described in Risk Factors and elsewhere in this report;
- the volatility of prices and supply of, and demand for, oil and natural gas;
- the timing and success of our drilling activities;
- the numerous uncertainties inherent in estimating quantities of oil and natural gas reserves and actual future production rates and associated costs;
- our ability to successfully identify, execute or effectively integrate future acquisitions;
- the usual hazards associated with the oil and natural gas industry, including fires, well blowouts, pipe failure, spills, explosions and other unforeseen hazards;
- our ability to effectively market our oil and natural gas;
- the availability of rigs, equipment, supplies and personnel;
- our ability to discover or acquire additional reserves;
- our ability to satisfy future capital requirements;
- changes in regulatory requirements;
- general economic conditions, status of the financial markets and competitive conditions;
- our ability to retain key members of our senior management and key employees; and
- hostilities in the Middle East and other sustained military campaigns and acts of terrorism or sabotage that impact the supply of crude oil and natural gas.

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**DEFINITIONS**

*The following are abbreviations and definitions of terms commonly used in the oil and gas industry and this report. Natural gas equivalents and crude oil equivalents are determined using the ratio of six Mcf to one barrel. All references to us, our, we or Comstock mean the registrant, Comstock Resources, Inc. and where applicable, its consolidated subsidiaries.*

**Bbl** means a barrel of U.S. 42 gallons of oil.

**Bcf** means one billion cubic feet of natural gas.

**Bcfe** means one billion cubic feet of natural gas equivalent.

**Btu** means British thermal unit, which is the quantity of heat required to raise the temperature of one pound of water from 58.5 to 59.5 degrees Fahrenheit.

**Completion** means the installation of permanent equipment for the production of oil or gas.

**Condensate** means a hydrocarbon mixture that becomes liquid and separates from natural gas when the gas is produced and is similar to crude oil.

**Development well** means a well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

**Dry hole** means a well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.

**Exploratory well** means a well drilled to find and produce oil or natural gas reserves not classified as proved, to find a new productive reservoir in a field previously found to be productive of oil or natural gas in another reservoir or to extend a known reservoir.

**GAAP** means generally accepted accounting principles in the United States of America.

**Gross** when used with respect to acres or wells, production or reserves refers to the total acres or wells in which we or another specified person has a working interest.

**MBbls** means one thousand barrels of oil.

**MBbls/d** means one thousand barrels of oil per day.

**Mcf** means one thousand cubic feet of natural gas.

**Mcfe** means one thousand cubic feet of natural gas equivalent.

**MMBbls** means one million barrels of oil.

**MMBtu** means one million British thermal units.

**MMcf** means one million cubic feet of natural gas.

**MMcf/d** means one million cubic feet of natural gas per day.

**MMcfe/d** means one million cubic feet of natural gas equivalent per day.

**MMcfe** means one million cubic feet of natural gas equivalent.

**Net** when used with respect to acres or wells, refers to gross acres of wells multiplied, in each case, by the percentage working interest owned by us.

**Net production** means production we own less royalties and production due others.

**Oil** means crude oil or condensate.



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**Operator** means the individual or company responsible for the exploration, development, and production of an oil or gas well or lease.

**PV 10 Value** means the present value of estimated future revenues to be generated from the production of proved reserves calculated in accordance with the Securities and Exchange Commission guidelines, net of estimated production and future development costs, using prices and costs as of the date of estimation without future escalation, without giving effect to non-property related expenses such as general and administrative expenses, debt service, future income tax expense and depreciation, depletion and amortization, and discounted using an annual discount rate of 10%. This amount is the same as the standardized measure of discounted future net cash flows related to proved oil and natural gas reserves except that it is determined without deducting future income taxes. Although PV 10 Value is not a financial measure calculated in accordance with GAAP, management believes that the presentation of PV 10 Value is relevant and useful to our investors because it presents the discounted future net cash flows attributable to our proved reserves prior to taking into account corporate future income taxes and our current tax structure. We use this measure when assessing the potential return on investment related to our oil and gas properties. Because many factors that are unique to any given company affect the amount of estimated future income taxes, the use of a pre-tax measure is helpful to investors when comparing companies in our industry.

**Proved developed reserves** means reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery will be included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

**Proved developed non-producing** means reserves (i) expected to be recovered from zones capable of producing but which are shut-in because no market outlet exists at the present time or whose date of connection to a pipeline is uncertain or (ii) currently behind the pipe in existing wells, which are considered proved by virtue of successful testing or production of offsetting wells.

**Proved developed producing** means reserves expected to be recovered from currently producing zones under continuation of present operating methods. This category may also include recently completed shut-in gas wells scheduled for connection to a pipeline in the near future.

**Proved reserves** means the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

**Proved undeveloped reserves** means reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances are estimates for proved undeveloped reserves attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

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**Recompletion** means the completion for production of an existing well bore in another formation from which the well has been previously completed.

**Reserve life** means the calculation derived by dividing year-end reserves by total production in that year.

**Reserve replacement** means the calculation derived by dividing additions to reserves from acquisitions, extensions, discoveries and revisions of previous estimates in a year by total production in that year.

**Royalty** means an interest in an oil and gas lease that gives the owner of the interest the right to receive a portion of the production from the leased acreage (or of the proceeds of the sale thereof), but generally does not require the owner to pay any portion of the costs of drilling or operating the wells on the leased acreage. Royalties may be either landowner's royalties, which are reserved by the owner of the leased acreage at the time the lease is granted, or overriding royalties, which are usually reserved by an owner of the leasehold in connection with a transfer to a subsequent owner.

**3-D seismic** means an advanced technology method of detecting accumulations of hydrocarbons identified by the collection and measurement of the intensity and timing of sound waves transmitted into the earth as they reflect back to the surface.

**Working interest** means an interest in an oil and gas lease that gives the owner of the interest the right to drill for and produce oil and gas on the leased acreage and requires the owner to pay a share of the costs of drilling and production operations. The share of production to which a working interest owner is entitled will always be smaller than the share of costs that the working interest owner is required to bear, with the balance of the production accruing to the owners of royalties. For example, the owner of a 100% working interest in a lease burdened only by a landowner's royalty of 12.5% would be required to pay 100% of the costs of a well but would be entitled to retain 87.5% of the production.

**Workover** means operations on a producing well to restore or increase production.

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We are a Nevada corporation engaged in the acquisition, development, production and exploration of oil and natural gas. Our common stock is listed and traded on the New York Stock Exchange.

Our oil and gas operations are concentrated in the East Texas/North Louisiana and South Texas regions. Our oil and natural gas properties are estimated to have proved reserves of 725.7 Bcfe with an estimated PV 10 Value of \$489.1 million as of December 31, 2009 and a standardized measure of discounted future net cash flows of \$426.6 million. Our consolidated proved oil and natural gas reserve base is 94% natural gas and 55% proved developed on a Bcfe basis as of December 31, 2009.

Our proved reserves at December 31, 2009 and our 2009 average daily production are summarized below:

	Reserves at December 31, 2009				2009 Average Daily Production			
	Oil (MMBbls)	Natural Gas (Bcf)	Total (Bcfe)	% of Total	Oil (MBbls/d)	Natural Gas (MMcf/d)	Total (MMcfe/d)	% of Total
East Texas / North Louisiana	1.3	502.6	510.2	70.3%	0.6	107.0	110.4	61.5%
South Texas	1.3	153.3	161.3	22.2%	0.4	51.8	54.5	30.4%
Other Regions	4.6	26.5	54.2	7.5%	1.1	7.8	14.5	8.1%
Total	7.2	682.4	725.7	100.0%	2.1	166.6	179.4	100.0%

**Strengths**

*High Quality Properties.* Our operations are focused in two primary operating areas, the East Texas/North Louisiana and South Texas regions. Our properties have an average reserve life of approximately 11.1 years and have extensive development and exploration potential. We have an extensive acreage position in our East Texas/North Louisiana region in the Haynesville shale resource play where we have identified 85,589 gross (72,638 net to us) acres prospective for Haynesville shale development.

*Successful Exploration and Development Program.* In 2009 we spent \$345.4 million on exploration and development of our oil and natural gas properties. We drilled 54 wells in 2009, 38.6 net to us, at a cost of \$307.0 million. We spent \$26.0 million to acquire additional leases in the Haynesville shale, \$1.9 million on other leasehold costs and \$0.9 million to acquire seismic data. We also spent \$9.6 million for recompletions, workovers, abandonment and production facilities. Our drilling activities in 2009 added 350 Bcfe to our proved reserves and drove our 9% production growth in 2009.

*Efficient Operator.* We operate 90% of our proved oil and natural gas reserve base as of December 31, 2009. As operator we are better able to control operating costs, the timing and plans for future development, the level of drilling and lifting costs and the marketing of production. As an operator, we receive reimbursements for overhead from other working interest owners, which reduces our general and administrative expenses.

*Successful Acquisitions.* We have had significant growth over the years as a result of our acquisition activity. Since 1991, we have added 984.1 Bcfe of proved oil and natural gas reserves from 36 acquisitions at an average cost of \$1.14 per Mcfe. Our application of strict economic and reserve risk criteria have enabled us to successfully evaluate and integrate acquisitions. We did not make any acquisitions of producing oil and gas properties in 2008 or 2009.

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### **Business Strategy**

*Pursue Exploration Opportunities.* We conduct exploration activities to grow our reserve base and to replace our production each year. In late 2007 we identified the potential in our largest operating region, East Texas/North Louisiana, to explore for natural gas in the Haynesville shale formation, which was below the Cotton Valley, Hosston and Travis Peak sand formations that we have been developing. We drilled eight pilot wells to evaluate the prospectivity of the Haynesville shale in 2007 and 2008. We undertook an active leasing program in 2008 and 2009 to acquire additional acreage where we believed the Haynesville shale formation would be prospective and spent \$116.9 million in 2008 and \$26.9 million in 2009 to increase our leasehold with Haynesville shale potential to 85,589 gross acres (72,638 net to us). We started the commercial development of the Haynesville shale in late 2008 and drilled two (1.1 net to us) successful horizontal wells. In 2009, our drilling program was primarily focused on exploring and developing our Haynesville shale acreage and we spent approximately \$243.6 million drilling 43 (30.7 net to us) Haynesville shale horizontal wells. Our Haynesville shale drilling program added 325 Bcfe to our proved reserves in 2009. We plan to continue to develop our Haynesville shale acreage in 2010 and have budgeted to spend \$348.0 million to drill 56 (41.1 net to us) Haynesville shale horizontal wells.

In prior years we have had an active drilling program in our South Texas region utilizing 3-D seismic to identify prospects in the Wilcox and Vicksburg formations. We have reduced our activity in the region in response to lower natural gas prices to focus on the higher return Haynesville shale program. We spent \$29.2 million in 2009 to drill five (3.4 net to us) successful wells in South Texas.

*Exploit Existing Reserves.* We seek to maximize the value of our oil and natural gas properties by increasing production and recoverable reserves through development drilling and workover, recompletion and exploitation activities. We utilize advanced industry technology, including 3-D seismic data, horizontal drilling, improved logging tools, and formation stimulation techniques. During 2009, outside of our Haynesville shale and South Texas drilling programs, we spent \$13.3 million to drill six wells (4.5 net to us). We also spent \$9.6 million for recompletion and workover activity in 2009.

*Maintain Flexible Capital Expenditure Budget.* The timing of most of our capital expenditures is discretionary because we have not made any significant long-term capital expenditure commitments except for contracted drilling services. We operate most of the drilling projects in which we participate. Consequently, we have a significant degree of flexibility to adjust the level of such expenditures according to market conditions. We have budgeted to spend approximately \$385.0 million on our development and exploration projects in 2010. We intend to primarily use operating cash flow to fund our development and exploration expenditures in 2010 and, to a lesser extent, cash on hand and borrowings under our bank credit facility. We may also make additional property acquisitions in 2010 that would require additional sources of funding. Such sources may include borrowings under our bank credit facility or sales of our equity or debt securities.

*Acquire High Quality Properties at Attractive Costs.* In prior years we have had a successful track record of increasing our oil and natural gas reserves through opportunistic acquisitions. Since 1991, we have added 984.1 Bcfe of proved oil and natural gas reserves from 36 acquisitions at a total cost of \$1.1 billion, or \$1.14 per Mcfe. The acquisitions were acquired at an average of 67% of their PV 10 Value in the year the acquisitions were completed. We did not complete any acquisitions of producing oil and gas properties in 2008 or 2009 due to our focus on developing our Haynesville shale properties. In evaluating acquisitions, we apply strict economic and reserve risk criteria. We target properties in our core operating areas with established production and low operating costs that also have potential opportunities to increase production and reserves through exploration and exploitation activities. We also evaluate our existing properties and consider divesting of non-strategic assets when market conditions are favorable.



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The following table summarizes the estimated proved oil and natural gas reserves for our twenty largest field areas as of December 31, 2009:

	<b>Natural</b>				<b>PV 10</b>	
	<b>Oil</b>	<b>Gas</b>	<b>Total</b>	<b>%</b>	<b>Value<sup>(1)</sup></b>	<b>%</b>
	<b>(MBbls)</b>	<b>(MMcf)</b>	<b>(MMcfe)</b>		<b>(000 s)</b>	
<b>East Texas / North Louisiana</b>						
Logansport	30	203,294	203,472	28.0%	\$ 90,460	18.5%
Toledo Bend		104,069	104,069	14.3%	3,816	0.8%
Beckville	144	54,132	54,996	7.6%	36,276	7.4%
Waskom	440	34,407	37,045	5.1%	18,315	3.7%
Blocker	106	24,952	25,590	3.5%	18,304	3.7%
Mansfield		21,269	21,269	2.9%	4,830	1.0%
Hico-Knowles/Terryville	293	14,016	15,774	2.2%	21,031	4.3%
Darco	46	11,833	12,110	1.7%	4,092	0.8%
Douglass	3	7,816	7,835	1.1%	5,650	1.2%
Cadeville	41	6,878	7,125	1.0%	4,587	0.9%
Longwood	54	4,176	4,501	0.6%	3,283	0.7%
Other	109	15,765	16,426	2.3%	10,789	2.3%
	1,266	502,607	510,212	70.3%	221,433	45.3%
<b>South Texas</b>						
Fandango		54,163	54,163	7.5%	50,676	10.4%
Double A Wells	974	26,586	32,431	4.5%	45,459	9.3%
Rosita	1	31,429	31,437	4.3%	29,721	6.1%
Las Hermanitas	3	14,382	14,397	2.0%	13,323	2.7%
Javelina	54	12,936	13,258	1.8%	16,114	3.3%
Ball Ranch	13	3,889	3,970	0.5%	6,712	1.4%
Other	298	9,893	11,673	1.6%	17,947	3.6%
	1,343	153,278	161,329	22.2%	179,952	36.8%