

COMSTOCK RESOURCES INC
Form 10-Q
November 05, 2014

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 Quarter Ended September 30, 2014

OR

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

Commission File No. 001-03262

COMSTOCK RESOURCES, INC.

(Exact name of registrant as specified in its charter)

NEVADA 94-1667468
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) 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 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 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 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 Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the registrant's common stock, par value \$0.50, as of November 5, 2014 was 47,860,582.

COMSTOCK RESOURCES, INC.

QUARTERLY REPORT

For the Quarter Ended September 30, 2014

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2014	December 31, 2013
	(In thousands)	
ASSETS		
Cash and Cash Equivalents	\$6,433	\$ 2,967
Accounts Receivable:		
Oil and gas sales	46,610	35,867
Joint interest operations	25,658	15,534
Derivative Financial Instruments	3,909	970
Other Current Assets	3,547	1,796
Total current assets	86,157	57,134
Property and Equipment:		
Unevaluated oil and gas properties	192,595	134,350
Oil and gas properties, successful efforts method	4,158,563	3,781,313
Other	19,621	18,373
Accumulated depreciation, depletion and amortization	(2,150,346)	(1,867,301)
Net property and equipment	2,220,433	2,066,735
Other Assets	15,761	15,529
	\$2,322,351	\$ 2,139,398

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts Payable	\$126,744	\$ 101,872
Deferred Income Taxes	1,368	339
Current Taxes Payable	—	1,487
Accrued Liabilities	56,801	91,297
Total current liabilities	184,913	194,995
Long-term Debt	1,000,298	798,700
Deferred Income Taxes	179,371	177,026
Reserve for Future Abandonment Costs	16,118	14,534
Other Non-Current Liabilities	2,025	2,138
Total liabilities	1,382,725	1,187,393
Commitments and Contingencies		
Stockholders' Equity:		

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Common stock – \$0.50 par, 75,000,000 shares authorized, 47,860,582 and 47,680,516 shares outstanding at September 30, 2014 and December 31, 2013, respectively	23,930	23,840
Additional paid-in capital	485,132	480,816
Retained earnings	430,564	447,349
Total stockholders' equity	939,626	952,005
	\$2,322,351	\$ 2,139,398

The accompanying notes are an integral part of these statements.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(In thousands, except per share amounts)			
Revenues:				
Oil sales	\$107,899	\$66,260	\$309,283	\$167,073
Natural gas sales	37,084	45,330	133,332	147,357
Total revenues	144,983	111,590	442,615	314,430
Operating expenses:				
Production taxes	6,369	4,168	18,437	10,172
Gathering and transportation	3,125	4,478	10,039	13,034
Lease operating	15,858	12,955	44,899	39,123
Exploration	11,449	2,995	11,449	15,342
Depreciation, depletion and amortization	99,977	85,762	283,390	255,973
General and administrative, net	7,927	8,153	25,910	25,996
Impairment of oil and gas properties	15	—	271	652
Loss on sale of oil and gas properties	—	2,165	—	2,084
Total operating expenses	144,720	120,676	394,395	362,376
Operating income (loss)	263	(9,086)	48,220	(47,946)
Other income (expenses):				
Gain on sale of marketable securities	—	—	—	7,877
Gain (loss) from derivative financial instruments	12,033	(7,395)	(2,763)	(10,321)
Other income	223	423	513	864
Interest expense	(14,912)	(20,530)	(43,359)	(57,348)
Total other income (expenses)	(2,656)	(27,502)	(45,609)	(58,928)
Income (loss) before income taxes	(2,393)	(36,588)	2,611	(106,874)
Benefit from (provision for) income taxes	490	12,554	(1,451)	36,792
Income (loss) from continuing operations	(1,903)	(24,034)	1,160	(70,082)
Income from discontinued operations, net of income taxes	—	—	—	148,609
Net income (loss)	\$(1,903)	\$(24,034)	\$1,160	\$78,527

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Net income (loss) per share:					
Basic	- income (loss) from continuing operations	\$(0.04)	\$(0.52)	\$0.02	\$(1.45)
	- income from discontinued operations	—	—	—	3.08
	- net income (loss)	\$(0.04)	\$(0.52)	\$0.02	\$1.63
Diluted	- income (loss) from continuing operations	\$(0.04)	\$(0.52)	\$0.02	\$(1.45)
	- income from discontinued operations	—	—	—	3.08
	- net income (loss)	\$(0.04)	\$(0.52)	\$0.02	\$1.63
Dividends per share		\$0.125	\$0.125	\$0.375	\$0.250
Weighted average shares outstanding:					
Basic		46,651	46,570	46,628	46,684
Diluted		46,651	46,570	46,948	46,684

The accompanying notes are an integral part of these statements.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income (loss)	\$(1,903)	\$(24,034)	\$1,160	\$78,527
Net change in unrealized gains and losses on marketable securities, net of a benefit from income taxes of \$2,380	—	—	—	(4,418)
Comprehensive income (loss)	\$(1,903)	\$(24,034)	\$1,160	\$74,109

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, 2014

(Unaudited)

	Common Stock (Shares) (In thousands)	Common Stock – Par Value	Additional Paid-in Capital	Retained Earnings	Total
Balance at January 1, 2014	47,681	\$ 23,840	\$ 480,816	\$ 447,349	\$ 952,005
Stock-based compensation	310	155	7,687	—	7,842
Restricted stock used for tax withholdings	(130)	(65)	(2,284)	—	(2,349)
Excess income taxes from stock-based compensation	—	—	(1,087)	—	(1,087)
Dividends paid	—	—	—	(17,945)	(17,945)
Net income	—	—	—	1,160	1,160
Balance at September 30, 2014	47,861	\$ 23,930	\$ 485,132	\$ 430,564	\$ 939,626

The accompanying notes are an integral part of these statements.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Nine Months Ended
September 30,
2014 2013
(In thousands)

Cash Flows from Operating Activities:

Net income	\$1,160	\$78,527
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	—	(148,609)
Gain on sale of assets	—	(5,793)
Deferred income taxes	1,487	(36,792)
Dry hole costs and lease impairments	11,449	14,903
Impairment of oil and gas properties	271	652
Depreciation, depletion and amortization	283,390	255,973
Loss on derivative financial instruments	2,763	10,321
Settlements of derivative financial instruments	(5,702)	1,641
Amortization of debt discount, premium and issuance costs	3,140	4,802
Stock-based compensation	7,842	9,561
Excess income taxes from stock-based compensation	1,087	2,016
Increase in accounts receivable	(20,867)	(49,246)
(Increase) decrease in other current assets	(951)	443
Increase in accounts payable and accrued liabilities	43,914	74,893
Net cash provided by continuing operations	328,983	213,292
Net cash used for discontinued operations	—	(7,730)
Net cash provided by operating activities	328,983	205,562

Cash Flows From Investing Activities:

Capital expenditures	(502,362)	(250,353)
Proceeds from asset sales	—	13,215
Investing activities of continuing operations	(502,362)	(237,138)
Cash flow from investing activities of discontinued operations:		
Capital expenditures	—	(101,037)
Proceeds from sale of oil and gas properties	—	823,701
Net cash provided by investing activities of discontinued operations	—	722,664
Net cash provided by (used for) investing activities	(502,362)	485,526

Cash Flows from Financing Activities:

Borrowings	300,750	95,000
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Principal payments on debt	(100,000)	(537,225)
Debt issuance costs	(2,524)	(16)
Tax withholdings related to restricted stock	(2,349)	(1,680)
Excess income taxes from stock-based compensation	(1,087)	(2,016)
Repurchases of common stock	—	(9,232)
Dividends paid	(17,945)	(12,037)
Net cash provided by (used for) financing activities	176,845	(467,206)
Net increase in cash and cash equivalents	3,466	223,882
Cash and cash equivalents, beginning of period	2,967	4,471
Cash and cash equivalents, end of period	\$6,433	\$228,353

The accompanying notes are an integral part of these statements.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

(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, 2014, the related results of operations and comprehensive income (loss) for the three months and nine months ended September 30, 2014 and 2013, and cash flows for the nine months ended September 30, 2014 and 2013.

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, 2013.

The results of operations for the three months and nine months ended September 30, 2014 are not necessarily an indication of the results expected for the full year.

These unaudited consolidated financial statements include the accounts of Comstock and its wholly-owned and controlled subsidiaries.

Reclassifications

Certain reclassifications have been made to prior periods' financial statements, consisting primarily of reclassifications to the presentation of the Company's derivative financial instruments, to conform to the current periods' presentation.

Marketable Securities

During the nine months ended September 30, 2013, the Company sold 600,000 shares of Stone Energy Corporation common stock and received \$13.4 million in proceeds. These shares had a cost basis of \$5.5 million. Comstock realized a gain before income taxes of \$7.9 million on the sale which is included in other income in the consolidated statements of operations. The Company utilized the specific identification method to determine the cost of the securities that were sold.

Property and Equipment

The Company follows the successful efforts method of accounting for its oil and gas properties. Costs incurred to acquire oil and gas leasehold are capitalized.

Unproved oil and gas properties are periodically assessed and any impairment in value is charged to exploration expense. The costs of unproved properties which are determined to be productive are transferred to oil and gas properties and amortized on an equivalent unit-of-production basis. For the three months and nine months ended September 30, 2013, the Company recognized impairment charges in exploration expense of \$3.0 million and \$14.9 million, respectively, related to certain leases that were expected to expire prior to the Company conducting drilling operations. There were no unproved property impairments during the nine months ended September 30, 2014.

The Company also assesses the need for an impairment of the costs capitalized for its oil and gas properties on a property basis. The Company recognized impairment charges of \$15,000 for the three months ended September 30, 2014, and \$0.3 million and \$0.7 million for the nine months ended September 30, 2014 and September 30, 2013, respectively, related to its oil and gas properties.

Accrued Liabilities

Accrued liabilities at September 30, 2014 and December 31, 2013 consist of the following:

	As of September 2014	As of December 31, 2013
	(In thousands)	
Accrued oil and gas property acquisition costs	\$—	\$ 40,128
Accrued drilling costs	19,904	34,914
Accrued interest	23,880	7,051
Accrued ad valorem taxes	4,800	—
Other accrued liabilities	8,217	