

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

(State or other jurisdiction of

94-1667468

(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

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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,<br>2014 | December 31,<br>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,                            | September 30, | September 30,     | September 30, |
|                                                          | 2014                                     | 2013          | 2014              | 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<br>September 30,<br>2014 |              | Nine<br>Months Ended<br>September 30,<br>2014 |           |
|-------------------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------|-----------------------------------------------|-----------|
|                                                                                                                   | 2013                                        |              | 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.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2014

(Unaudited)

|                                                   | Common<br>Stock<br>(Shares)<br>(In thousands) | Common<br>Stock –<br>Par Value | Additional<br>Paid-in<br>Capital | Retained<br>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<br>September 30,<br>2014 | As of<br>December 31,<br>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                          | 9,204                         |
|                                                | \$56,801                       | \$ 91,297                     |

## Reserve for Future Abandonment Costs

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, 2014 and 2013:

|                                                | Nine Months<br>Ended<br>September 30,<br>2014 2013 |          |
|------------------------------------------------|----------------------------------------------------|----------|
|                                                | (In thousands)                                     |          |
| Future abandonment costs – beginning of period | \$14,534                                           | \$16,387 |
| Accretion expense                              | 615                                                | 716      |
| New wells placed on production                 | 1,045                                              | 599      |
| Liabilities settled and assets disposed of     | (76 )                                              | (555 )   |
| Future abandonment costs — end of period       | \$16,118                                           | \$17,147 |

## Derivative Financial 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 counterparty 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 counterparty based on the difference. Comstock generally receives a settlement from the counterparty 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 volumes hedged. For collars, generally Comstock receives a settlement from the counterparty when the settlement price is below the floor and pays a settlement to the counterparty when the settlement price exceeds the cap. No settlement occurs when the settlement price falls between the floor and cap.

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As of September 30, 2014, the Company had the following outstanding commodity derivatives:

| Commodity and Derivative Type | Weighted-Average<br>Contract Price | Volume<br>(barrels) | Contract Period<br>October 2014 – |
|-------------------------------|------------------------------------|---------------------|-----------------------------------|
|-------------------------------|------------------------------------|---------------------|-----------------------------------|

|                                 |                  |         |               |
|---------------------------------|------------------|---------|---------------|
| Crude Oil Price Swap Agreements | \$96.60 per Bbl. | 633,000 | December 2014 |
|---------------------------------|------------------|---------|---------------|

All of the Company's derivative financial instruments are used for risk management purposes and by policy none are held for trading or speculative purposes. Comstock minimizes credit risk to counterparties of its derivative financial instruments through formal credit policies, monitoring procedures, and diversification. All of Comstock's derivative financial instruments are with parties that are lenders under its bank credit facility. The Company is not required to provide any credit support to its counterparties other than cross collateralization with the assets securing its bank credit facility. None of the Company's derivative financial instruments involve payment or receipt of premiums.

None of the derivative contracts have been designated as cash flow hedges. The Company recognizes cash settlements and changes in the fair value of its derivative financial instruments as a single component of other income (expenses). The Company had gains of \$12.0 million and losses of \$7.4 million related to its oil swap agreements during the three months ended September 30, 2014 and 2013, respectively, and losses of \$2.8 million and \$10.3 million during the nine months ended September 30, 2014 and 2013, respectively. Cash settlements on derivative financial instruments were payments of \$0.4 million and \$3.6 million for the three months ended September 30, 2014 and 2013, respectively, and payments of \$5.7 million and receipts of \$1.6 million during the nine months ended September 30, 2014 and 2013, respectively. The estimated fair value and carrying value of the Company's derivative financial instruments was an asset of \$3.9 million and \$1.0 million as of September 30, 2014 and December 31, 2013, respectively, which were classified as current assets.

### Stock-Based Compensation

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, 2014 and 2013, the Company recognized \$2.8 million and \$3.1 million, respectively, of stock-based compensation expense within general and administrative expenses related to awards of restricted stock and performance stock units to its employees and directors. For the nine months ended September 30, 2014 and 2013, the Company recognized \$7.8 million and \$9.6 million, respectively, of stock-based compensation expense within general and administrative expenses.

During the nine months ended September 30, 2014, the Company granted 235,524 shares of restricted stock with a grant date fair value of \$4.8 million or \$20.24 per share to its employees and non-employee directors. The fair value of each restricted share on the date of grant is equal to its market price. As of September 30, 2014, Comstock had 1,209,694 shares of unvested restricted stock outstanding at a weighted average grant date fair value of \$19.91 per share. Total unrecognized compensation cost related to unvested restricted stock grants of \$8.8 million as of September 30, 2014 is expected to be recognized over a period of 1.2 years.

During the nine months ended September 30, 2014, the Company granted 188,958 performance share units ("PSUs") with a grant date fair value of \$3.7 million or \$19.81 per unit to its employees. As of September 30, 2014, Comstock had 364,332 PSUs outstanding at a weighted average grant date fair value of \$20.36 per unit. The number of shares of common stock to be issued related to the PSUs is based on the Company's stock price performance as compared to its peers which could result in the issuance of anywhere from zero to 853,658 shares of common stock. Total unrecognized compensation cost related to these grants of \$3.4 million as of September 30, 2014 is expected to be recognized over a period of 1.5 years.

As of September 30, 2014, Comstock had outstanding options to purchase 115,150 shares of common stock at a weighted average exercise price of \$32.90 per share. All of the stock options were exercisable and there were no unrecognized compensation costs related to the stock options as of September 30, 2014. No stock options were exercised during the three months or nine months ended September 30, 2014 or 2013.

### Income Taxes

The following is an analysis of consolidated income tax expense (benefit) from continuing operations:

|                    |                   |
|--------------------|-------------------|
| Three Months Ended | Nine Months Ended |
| September 30,      | September 30,     |

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|                                           | 2014           | 2013       | 2014    | 2013       |
|-------------------------------------------|----------------|------------|---------|------------|
|                                           | (In thousands) |            |         |            |
| Current benefit                           | \$(73 )        | \$—        | \$(36 ) | \$—        |
| Deferred provision (benefit)              | (417)          | (12,554)   | 1,487   | (36,792)   |
| Provision for (benefit from) income taxes | \$(490)        | \$(12,554) | \$1,451 | \$(36,792) |

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 effective tax rate and the 35% federal statutory rate is mainly caused by non-deductible stock compensation and state taxes. The Company estimated the income tax provision for the three months and nine months ended September 30, 2014 using the discrete method. The discrete method is applied when the application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. The discrete method treats the year to date period as if it was the annual period and determines the income tax expense or benefit on that basis. The Company believes that, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method as the estimated annual effective tax rate method is not reliable due to (i) the high degree of uncertainty in estimating annual pretax earnings and (ii) the wide variability in the effective tax rate given the significant impact of permanent items.

The difference between the Company's customary rate of 35% and the effective tax rate on income before income taxes from continuing operations is due to the following:

|                                            | Three Months Ended<br>September 30, |   |      |   | Nine Months Ended<br>September 30, |   |      |   |
|--------------------------------------------|-------------------------------------|---|------|---|------------------------------------|---|------|---|
|                                            | 2014                                |   | 2013 |   | 2014                               |   | 2013 |   |
| Tax at statutory rate                      | 35.0                                | % | 35.0 | % | 35.0                               | % | 35.0 | % |
| Tax effect of:                             |                                     |   |      |   |                                    |   |      |   |
| Nondeductible stock-based compensation     | (15.1                               | ) | (0.6 | ) | 20.1                               |   | (1.1 | ) |
| State income taxes, net of federal benefit | 5.5                                 |   | (0.3 | ) | (5.5                               | ) | 0.6  |   |
| Other                                      | (4.9                                | ) | 0.3  |   | 6.0                                |   | (0.1 | ) |
| Effective tax rate                         | 20.5                                | % | 34.4 | % | 55.6                               | % | 34.4 | % |

The Company's federal income tax returns for the years subsequent to December 31, 2009, remain subject to examination. The Company's income tax returns in major state income tax jurisdictions remain subject to examination from various periods subsequent to December 31, 2008. State tax returns in one state jurisdiction are currently under review. The Company has evaluated the preliminary findings in this jurisdiction and believes it is more likely than not that the ultimate resolution of these matters will not have a material effect on the Company's financial statements. The Company currently believes that all other significant filing positions are highly certain and that all of its other significant income tax positions and deductions would be sustained under audit or the final resolution would not have a material effect on the consolidated financial statements. Therefore, the Company has not established any significant reserves for uncertain tax positions.

#### Fair Value Measurements

The Company holds or has held certain items that are required to be measured at fair value. These include cash and cash equivalents held in bank accounts and derivative financial instruments in the form of oil price swap agreements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A three-level hierarchy is followed for disclosure to show the extent and level of judgment used to estimate fair value measurements:

Level 1 – Inputs used to measure fair value are unadjusted quoted prices that are available in active markets for the identical assets or liabilities as of the reporting date.

Level 2 – Inputs used to measure fair value, other than quoted prices included in Level 1, are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.

Level 3 – Inputs used to measure fair value are unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The Company's valuation of cash and cash equivalents is a Level 1 measurement. The Company's oil price swap agreements are not traded on a public exchange. Their value is determined utilizing a discounted cash flow model

based on inputs that are readily available in public markets and, accordingly, the valuation of these swap agreements is categorized as a Level 2 measurement.

The following table summarizes financial assets accounted for at fair value as of September 30, 2014:

|                                                     | Carrying<br>Value<br>Measured at<br>Fair Value at<br>September<br>30,<br>2014 | Level 1 | Level 2 |
|-----------------------------------------------------|-------------------------------------------------------------------------------|---------|---------|
|                                                     | (In thousands)                                                                |         |         |
| Assets measured at fair value on a recurring basis: |                                                                               |         |         |
| Cash and cash equivalents held in bank accounts     | \$6,433                                                                       | \$6,433 | \$—     |
| Derivative financial instruments                    | 3,909                                                                         | —       | 3,909   |
| Total assets                                        | \$10,342                                                                      | \$6,433 | \$3,909 |

The following table presents the carrying amounts and estimated fair value of the Company's other financial instruments:

|                    | As of September<br>30, 2014 |               |
|--------------------|-----------------------------|---------------|
|                    | Carrying<br>Value           | Fair<br>Value |
|                    | (In thousands)              |               |
| Fixed rate debt    | \$695,298                   | \$745,000     |
| Floating rate debt | \$305,000                   | \$305,000     |

The fair market value of the Company's fixed rate debt was based on the market prices as of September 30, 2014, a Level 1 measurement. The fair value of the floating rate debt outstanding at September 30, 2014 approximated its carrying value, a Level 2 measurement.

### Earnings Per Share

Basic earnings per share is determined without the effect of any outstanding potentially dilutive stock options or PSUs and diluted earnings per share is determined with the effect of outstanding stock options and PSUs that are potentially dilutive. Unvested share-based payment awards containing nonforfeitable rights to dividends are considered to be participatory securities and are included in the computation of basic and diluted earnings per share pursuant to the two-class method. PSUs represent the right to receive a number of shares of the Company's common stock that may range from zero to up to three times the number of PSUs granted on the award date based on the achievement of certain performance measures during a performance period. The number of potentially dilutive shares related to PSUs is based on the number of shares, if any, which would be issuable at the end of the respective period, assuming that date was the end of the contingency period. The treasury stock method is used to measure the dilutive effect of PSUs. Basic and diluted earnings per share for the three months and nine months ended September 30, 2014 and 2013 were determined as follows:

|                                                                          | Three Months Ended September 30,         |        |              |            |        |              |
|--------------------------------------------------------------------------|------------------------------------------|--------|--------------|------------|--------|--------------|
|                                                                          | 2014                                     |        |              | 2013       |        |              |
|                                                                          | Loss                                     | Shares | Per<br>Share | Loss       | Shares | Per<br>Share |
|                                                                          | (In thousands, except per share amounts) |        |              |            |        |              |
| Net loss from continuing operations                                      | \$(1,903)                                |        |              | \$(24,034) |        |              |
| Income allocable to unvested restricted stock                            | (151 )                                   |        |              | (195 )     |        |              |
| Basic net loss from continuing operations attributable to common stock   | \$(2,054)                                | 46,651 | \$(0.04)     | \$(24,229) | 46,570 | \$(0.52)     |
| Effect of dilutive securities:                                           |                                          |        |              |            |        |              |
| Stock options                                                            | —                                        | —      |              | —          | —      |              |
| Performance share units                                                  | —                                        | —      |              | —          | —      |              |
| Diluted net loss from continuing operations attributable to common stock | \$(2,054)                                | 46,651 | \$(0.04)     | \$(24,229) | 46,570 | \$(0.52)     |

|                                                                                   | Nine Months Ended September 30,<br>2014 |        |              | 2013             |        |              |
|-----------------------------------------------------------------------------------|-----------------------------------------|--------|--------------|------------------|--------|--------------|
|                                                                                   | Income                                  | Shares | Per<br>Share | Income<br>(Loss) | Shares | Per<br>Share |
| (In thousands, except per share amounts)                                          |                                         |        |              |                  |        |              |
| Net income (loss) from continuing operations                                      | \$1,160                                 |        |              | \$(70,082 )      |        |              |
| (Income) loss allocable to unvested restricted stock                              | (444 )                                  |        |              | 2,254            |        |              |
| Basic net income (loss) from continuing operations attributable to common stock   | \$716                                   | 46,628 | \$0.02       | \$(67,828 )      | 46,684 | \$(1.45)     |
| Effect of dilutive securities:                                                    |                                         |        |              |                  |        |              |
| Stock options                                                                     | —                                       | —      |              | —                | —      |              |
| Performance share units                                                           | —                                       | 320    |              | —                | —      |              |
| Diluted net income (loss) from continuing operations attributable to common stock | \$716                                   | 46,948 | \$0.02       | \$(67,828 )      | 46,684 | \$(1.45)     |

|                                                                              |  |  |  |           |        |        |
|------------------------------------------------------------------------------|--|--|--|-----------|--------|--------|
| Net income from discontinued operations                                      |  |  |  | \$148,609 |        |        |
| Income allocable to unvested restricted stock                                |  |  |  | (4,782 )  |        |        |
| Basic net income from discontinued operations attributable to common stock   |  |  |  | \$143,827 | 46,684 | \$3.08 |
| Effect of dilutive securities:                                               |  |  |  |           |        |        |
| Stock options                                                                |  |  |  | —         | —      |        |
| Performance share units                                                      |  |  |  | —         | —      |        |
| Diluted net income from discontinued operations attributable to common stock |  |  |  | \$143,827 | 46,684 | \$3.08 |

At September 30, 2014 and December 31, 2013, 1,209,694 and 1,515,889 shares of restricted stock, respectively, are included in common stock outstanding as such shares have a nonforfeitable right to participate in any dividends that might be declared and have the right to vote on matters submitted to the Company's stockholders. Weighted average shares of unvested restricted stock outstanding during the three months and nine months ended September 30, 2014 and 2013 were as follows:

|                           | Three Months Ended |       | Nine Months Ended |       |
|---------------------------|--------------------|-------|-------------------|-------|
|                           | September 30,      |       | September 30,     |       |
|                           | 2014               | 2013  | 2014              | 2013  |
|                           | (In thousands)     |       |                   |       |
| Unvested restricted stock | 1,210              | 1,520 | 1,184             | 1,552 |

Options to purchase common stock and PSUs that were outstanding and that were excluded as anti-dilutive from the determination of diluted earnings per share are as follows:

|                                              | Three Months Ended                        |         | Nine Months Ended |          |
|----------------------------------------------|-------------------------------------------|---------|-------------------|----------|
|                                              | September 30,                             |         | September 30,     |          |
|                                              | 2014                                      | 2013    | 2014              | 2013     |
|                                              | (In thousands except per share/unit data) |         |                   |          |
| Weighted average anti-dilutive stock options | 115                                       | 115     | 115               | 135      |
| Weighted average exercise price per share    | \$32.90                                   | \$32.90 | \$ 32.90          | \$ 32.90 |

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|                                                 |         |         |     |          |
|-------------------------------------------------|---------|---------|-----|----------|
| Weighted average performance share units        | 257     | 91      | —   | 56       |
| Weighted average grant date fair value per unit | \$20.71 | \$21.19 | \$— | \$ 21.15 |

For the three months and nine months ended September 30, 2014 and 2013, the excluded options that were anti-dilutive were at exercise prices in excess of the average stock price. All stock options and unvested PSUs were anti-dilutive to earnings and excluded from weighted average shares used in the computation of earnings per share in the three months ended September 30, 2014 and 2013 and the nine months ended September 30, 2013 due to the net loss in the periods.

# 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. At September 30, 2014 and December 31, 2013, the Company's cash investments consisted of cash held in bank accounts.

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

|                     | Nine Months Ended September 30, |           |
|---------------------|---------------------------------|-----------|
|                     | 2014                            | 2013      |
|                     | (In thousands)                  |           |
| Cash Payments:      |                                 |           |
| Interest payments   | \$ 30,441                       | \$ 44,228 |
| Income tax payments | \$ 1,467                        | \$ 768    |

The Company capitalizes interest on its unevaluated oil and gas property costs during periods when it is conducting exploration activity on this acreage. The Company capitalized interest of \$2.7 million and \$0.7 million for the three months ended September 30, 2014 and 2013, respectively, and \$7.5 million and \$2.4 million for the nine months ended September 30, 2014 and 2013, respectively, which reduced interest expense.

## Comprehensive Income (Loss)

Comprehensive income (loss) consists of the following:

|                                                                                                                                              | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |           |
|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|------------|------------------------------------|-----------|
|                                                                                                                                              | 2014                                | 2013       | 2014                               | 2013      |
|                                                                                                                                              | (In thousands)                      |            |                                    |           |
| Net income (loss)                                                                                                                            | \$(1,903)                           | \$(24,034) | \$ 1,160                           | \$ 78,527 |
| Other comprehensive income:                                                                                                                  |                                     |            |                                    |           |
| Realized gains on marketable securities reclassified to gain on sale of marketable securities, net of a benefit from income taxes of \$2,757 | —                                   | —          | —                                  | (5,120 )  |
| Unrealized gains on marketable securities, net of provision for income taxes of \$377                                                        | —                                   | —          | —                                  | 702       |
| Total comprehensive income (loss)                                                                                                            | \$(1,903)                           | \$(24,034) | \$ 1,160                           | \$ 74,109 |

## Discontinued Operations

On March 14, 2013, the Company entered into an agreement to sell its oil and gas properties located in Reeves and Gaines counties in West Texas to a third party. The sale closed on May 14, 2013 with an effective date of January 1, 2013. Income from discontinued operations for the nine months ended September 30, 2013 is comprised of the following:

|                                                         | Nine Months<br>Ended<br>September 30, 2013<br>(In thousands) |
|---------------------------------------------------------|--------------------------------------------------------------|
| Revenues:                                               |                                                              |
| Oil and gas sales                                       | \$ 25,125                                                    |
| Costs and expenses:                                     |                                                              |
| Production taxes                                        | 1,120                                                        |
| Gathering and transportation                            | 501                                                          |
| Lease operating                                         | 9,853                                                        |
| Depletion, depreciation and amortization                | 8,649                                                        |
| Interest expense <sup>(1)</sup>                         | 6,346                                                        |
| Total costs and expenses                                | 26,469                                                       |
| Gain on sale of discontinued operations                 | 230,637                                                      |
| Income from discontinued operations before income taxes | 229,293                                                      |
| Income tax expense:                                     |                                                              |
| Current                                                 | (637 )                                                       |
| Deferred                                                | (80,047 )                                                    |
| Total income tax expense                                | (80,684 )                                                    |
| Net income from discontinued operations                 | \$ 148,609                                                   |

(1) Interest expense was allocated to discontinued operations based on the ratio of the net assets of discontinued operations to our consolidated net assets plus long-term debt. Interest expense is net of capitalized interest of \$2,010 for the nine months ended September 30, 2013, respectively.

## (2) STOCKHOLDERS' EQUITY –

On each of February 20, May 21, and August 21, 2014, Comstock's Board of Directors declared a dividend of 12.5¢ per share on the Company's common stock to stockholders of record at the close of business on March 7, June 6 and September 5, 2014, respectively. Dividends of \$17.9 million and \$12.0 million were paid during the nine months ended September 30, 2014 and September 30, 2013, respectively. In 2013, the Board of Directors approved an open market share repurchase plan which permits the Company to repurchase up to \$100.0 million of its common stock on the open market. The Company made various open market purchases of 631,096 shares at an aggregate cost of \$9.2 million under this plan during the three months and nine months ended September 30, 2013. The Company did not

make any purchases under this plan during the nine months ended September 30, 2014, and repurchases of up to \$90.8 million remain available under this plan in future periods as of September 30, 2014.

(3) LONG-TERM DEBT –

At September 30, 2014, long-term debt was comprised of:

|                                                       | (In thousands) |
|-------------------------------------------------------|----------------|
| Bank credit facility                                  | \$ 305,000     |
| 7 <sup>3</sup> / <sub>4</sub> % Senior Notes due 2019 | 405,277        |
| 9 <sup>1</sup> / <sub>2</sub> % Senior Notes due 2020 | 290,021        |
|                                                       | \$ 1,000,298   |

Comstock has a \$1.0 billion bank credit facility with Bank of Montreal, as the administrative agent. The bank credit facility is a five year revolving credit commitment that matures on November 22, 2018. Indebtedness under the bank credit facility is secured by all of Comstock's assets 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 Company's future net cash flows of oil and natural gas properties. As of September 30, 2014, the borrowing base was \$700.0 million, of which \$395.0 million was available. 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. Borrowings under the bank credit facility bear interest, based on the utilization of the borrowing base, at Comstock's option at either (1) LIBOR plus 1.5% to 2.5% or (2) the base rate (which is the higher of the administrative agent's prime rate, the federal funds rate plus 0.5% or 30 day LIBOR plus 1.0%) plus 0.5% to 1.5%. A commitment fee of 0.375% to 0.5%, based on the utilization of the borrowing base, is payable annually on the unused borrowing base. The bank credit facility contains covenants that, among other things, restrict the payment of cash dividends and repurchases of common stock in excess of \$120.0 million per year, 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 leverage ratio and the maintenance of an interest coverage ratio. The Company was in compliance with these covenants as of September 30, 2014.

Comstock has \$400.0 million of 7¾% senior notes (the "2019 Notes") outstanding which are due on April 1, 2019 and bear interest which is payable semi-annually on each April 1 and October 1. Comstock also has \$300.0 million of 9½% senior notes (the "2020 Notes") which are due on June 15, 2020 and bear interest which is payable semi-annually on each June 15 and December 15. During the nine months ended September 30, 2014, the Company issued \$100.0 million of the 2019 Notes in a public offering. Net proceeds from the issuance of the additional 2019 Notes of \$103.3 million were used to pay down borrowings under the Company's bank credit facility. The 2019 Notes and 2020 Notes are unsecured obligations of Comstock and are guaranteed by all of Comstock's material subsidiaries. Such subsidiary guarantors are 100% owned and all of the guarantees are full and unconditional and joint and several obligations. As of September 30, 2014, Comstock had no material assets or operations which are independent of its subsidiaries. There are no restrictions on the ability of Comstock to obtain funds from its subsidiaries through dividends or loans.

#### (4) 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 under terms of up to two years. As of September 30, 2014, the Company had commitments for contracted drilling services of \$56.3 million.

The Company has entered into natural gas transportation and treating agreements through July 2019. Maximum commitments under these transportation agreements as of September 30, 2014 totaled \$13.4 million.

## 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, 2013.

## Results of Operations From Continuing Operations

|                                                         | Three Months Ended<br>September 30,<br>2014 |           | Nine Months Ended<br>September 30,<br>2014 |           |
|---------------------------------------------------------|---------------------------------------------|-----------|--------------------------------------------|-----------|
|                                                         | 2013                                        |           | 2013                                       |           |
| (In thousands, except per unit amounts)                 |                                             |           |                                            |           |
| Net Production Data:                                    |                                             |           |                                            |           |
| Oil (Mbbls)                                             | 1,125                                       | 632       | 3,172                                      | 1,615     |
| Natural gas (Mmcf)                                      | 9,641                                       | 13,612    | 30,722                                     | 43,446    |
| Natural gas equivalent (Mmcfe)                          | 16,390                                      | 17,404    | 49,752                                     | 53,134    |
| Revenues:                                               |                                             |           |                                            |           |
| Oil sales                                               | \$107,899                                   | \$66,260  | \$309,283                                  | \$167,073 |
| Natural gas sales                                       | 37,084                                      | 45,330    | 133,332                                    | 147,357   |
| Total oil and gas sales                                 | \$144,983                                   | \$111,590 | \$442,615                                  | \$314,430 |
| Expenses:                                               |                                             |           |                                            |           |
| Production taxes                                        | \$6,369                                     | \$4,168   | \$18,437                                   | \$10,172  |
| Gathering and transportation                            | 3,125                                       | 4,478     | 10,039                                     | 13,034    |
| Lease operating <sup>(1)</sup>                          | 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   |
| Average Sales Price:                                    |                                             |           |                                            |           |
| Natural gas (per Mcf)                                   | \$3.85                                      | \$3.33    | \$4.34                                     | \$3.39    |
| Oil (per Bbl)                                           | \$95.92                                     | \$104.83  | \$97.51                                    | \$103.47  |
| Average equivalent (Mcf)                                | \$8.85                                      | \$6.41    | \$8.90                                     | \$5.92    |
| Expenses (\$ per Mcfe):                                 |                                             |           |                                            |           |
| Production taxes                                        | \$0.39                                      | \$0.24    | \$0.37                                     | \$0.19    |
| Gathering and transportation                            | \$0.19                                      | \$0.26    | \$0.20                                     | \$0.25    |
| Lease operating <sup>(1)</sup>                          | \$0.97                                      | \$0.74    | \$0.90                                     | \$0.73    |
| Depreciation, depletion and amortization <sup>(2)</sup> | \$6.08                                      | \$4.91    | \$5.68                                     | \$4.80    |

(1) Includes ad valorem taxes.

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

Revenues –

Our oil and natural gas sales increased \$33.4 million (30%) in the third quarter of 2014 to \$145.0 million from \$111.6 million in the third quarter of 2013. Oil sales in the third quarter of 2014 increased by \$41.6 million (63%) from 2013 while our natural gas sales decreased by \$8.2 million (18%) from 2013. The increase in oil sales was principally attributable to the 78% growth in oil production, which was partially offset by an 8% decrease in realized oil prices. Our drilling activity in the Eagleville field in South Texas generated the primary growth in oil production. Due to limited drilling in our natural gas properties, our natural gas production fell by 29% from the third quarter of 2013 while our realized natural gas price improved by 16%.

In the first nine months of 2014, our oil and natural gas sales increased \$128.2 million (41%) to \$442.6 million from \$314.4 million in the first nine months of 2013. Oil sales in the first nine months of 2014 increased by \$142.2 million (85%) from 2013 while our natural gas sales decreased by \$14.0 million (10%) from 2013. The increase in oil sales was principally attributable to the 96% growth in oil production offset by a 6% decrease in our realized prices in 2014. Our natural gas production fell by 29% from 2013 while our realized natural gas price improved by 28%.

## Costs and Expenses –

Production taxes increased \$2.2 million to \$6.4 million for the third quarter of 2014 from \$4.2 million in the third quarter of 2013. Production taxes of \$18.4 million for the first nine months of 2014 increased \$8.2 million over production taxes of \$10.2 million for the first nine months of 2013. This increase is mainly related to increased oil and gas sales in 2014.

Gathering and transportation costs for the third quarter of 2014 decreased \$1.4 million to \$3.1 million as compared to \$4.5 million in the third quarter of 2013. Gathering and transportation costs for the first nine months of 2014 decreased \$3.0 million to \$10.0 million as compared to \$13.0 million for the first nine months of 2013. The decrease mainly reflects the transportation costs relating to decreased natural gas production.

Our lease operating expenses of \$15.9 million for the third quarter of 2014 increased \$2.9 million (22%) from operating expenses of \$13.0 million for the third quarter of 2013. Our lease operating expense for the first nine months of 2014 of \$44.9 million increased \$5.8 million or 15% from our lease operating expense of \$39.1 million for the first nine months of 2013. Our lease operating expense of \$0.90 per Mcfe produced for the nine months ended September 30, 2014 was \$0.17 per Mcfe or 24% higher than for the same period in 2013. This increase primarily reflects our lower natural gas production and the fixed nature of much of our lifting costs as well as increased lifting costs associated with new oil wells put on production during 2014.

Exploration costs of \$11.4 million in the three months and nine months ended September 30, 2014 relate to exploratory well costs that are being expensed as the result of mechanical problems encountered during completion which caused us to abandon the well. Exploration costs of \$3.0 million and \$15.3 million in the three and nine months ended September 30, 2013, respectively, primarily related to impairments on certain of our unevaluated properties where we no longer expect to conduct drilling operations prior to the expiration of the lease term.

Depreciation, depletion and amortization (“DD&A”) increased \$14.2 million (17%) to \$100.0 million in the third quarter of 2014 from \$85.8 million in the third quarter of 2013. The increase was primarily the result of our higher DD&A rate in 2014. Our DD&A per equivalent Mcf produced increased \$1.17 (24%) to \$6.08 for the three months ended September 30, 2014 from \$4.91 for the three months ended September 30, 2013. DD&A for the first nine months of 2014 increased \$27.4 million (11%) to \$283.4 million from \$256.0 million for the nine months ended September 30, 2013. For the first nine months of 2014, our per unit DD&A rate of \$5.68 increased \$0.88 (18%) from our DD&A rate of \$4.80 for the first nine months of 2013. The higher DD&A rate per Mcfe primarily reflects the higher capitalized costs related to oil wells drilled in 2013 and 2014.

General and administrative expenses, which are reported net of overhead reimbursements, decreased slightly to \$7.9 million for the third quarter of 2014 from \$8.2 million in the third quarter of 2013. Included in general and administrative expenses are stock-based compensation of \$2.8 million and \$3.1 million for the three months ended September 30, 2014 and 2013, respectively. For the first nine months of 2014, general and administrative expenses of \$25.9 million were essentially unchanged from general and administrative expenses of \$26.0 million for the first nine months of 2013. Included in general and administrative expense is stock-based compensation of \$7.8 million and \$9.6 million for the nine months ended September 30, 2014 and 2013, respectively.

Interest expense decreased \$5.6 million to \$14.9 million for the third quarter of 2014 from interest expense from continuing operations of \$20.5 million in the third quarter of 2013. The decrease was primarily related to the lower interest rates on our debt outstanding in 2014. We had average borrowings of \$306.5 million outstanding under our bank credit facility during the third quarter of 2014 as compared to no borrowings outstanding under our bank credit facility during the third quarter of 2013. We capitalized interest of \$2.7 million and \$0.7 million on our unevaluated properties during the three months ended September 30, 2014 and 2013, respectively. Interest expense decreased

\$13.9 million to \$43.4 million for the first nine months of 2014 from interest expense of \$57.3 million in the first nine months of 2013. The decrease was primarily due to the decrease in debt outstanding in 2014 and the lower interest rates on our debt following the redemption of \$300.0 million of our 8<sup>3</sup>/<sub>8</sub>% senior notes in October 2013. We had average borrowings of \$309.7 million outstanding under our bank credit facility during the first nine months of 2014 as compared to average borrowings of \$232.7 million outstanding under our bank credit facility during the first nine months of 2013. We capitalized interest of \$7.5 million and \$2.4 million on our unevaluated properties during the nine months ended September 30, 2014 and 2013, respectively. Interest expense allocated to discontinued operations was \$8.4 million during the nine months ended September 30, 2013, of which \$2.0 million was capitalized.

During the nine months ended September 30, 2013, we recognized a gain of \$7.9 million from the sale of 600,000 shares of common stock in Stone Energy Corporation held as marketable securities.

We utilized oil price swaps to manage our exposure to oil prices and protect returns on investment from our drilling activities in 2014 and 2013. Gains related to our derivative financial instruments were \$12.0 million in the three months ended September 30, 2014 and losses related to our derivative financial instruments were \$7.4 million in the three months ended September 30, 2013. Losses related to our derivative financial instruments were \$2.8 million and \$10.3 million in the nine months ended September 30, 2014 and 2013, respectively. The following table presents our crude oil equivalent prices before and after the effect of cash settlements of our derivative financial instruments:

|                                                                                     | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|-------------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                                     | 2014                                | 2013      | 2014                               | 2013      |
| Average Realized Oil Price:                                                         |                                     |           |                                    |           |
| Oil, per barrel                                                                     | \$ 95.92                            | \$ 104.83 | \$ 97.51                           | \$ 103.47 |
| Cash settlements of derivative financial instruments,<br>per barrel                 | (0.33 )                             | (5.63 )   | (1.80 )                            | 1.02      |
| Price per barrel, including cash settlements of derivative financial<br>instruments | \$ 95.59                            | \$ 99.20  | \$ 95.71                           | \$ 104.49 |

Income taxes related to continuing operations for the third quarter of 2014 were a benefit of \$0.5 million as compared to a benefit of \$12.6 million for the three months ended September 30, 2013. Income taxes related to continuing operations for the nine months ended September 30, 2014 were a provision of \$1.5 million as compared to a benefit for income taxes of \$36.8 million for the nine months ended September 30, 2013. Our effective tax rate for the three months ended September 30, 2014 was a benefit of 20.5% as compared to a benefit of 34.4% for the three months ended September 30, 2013. Our effective tax rate was 55.6% for the nine months ended September 30, 2014 as compared to 34.4% for the nine months ended September 30, 2013. The effective tax rates for 2014 and 2013 primarily reflect the effect of certain non-deductible expenses and our state tax expenses.

We reported a net loss from continuing operations of \$1.9 million for the three months ended September 30, 2014 or 4¢ per share, as compared to a net loss of \$24.0 million, or \$0.52 per share, for the three months ended September 30, 2013. We reported net income from continuing operations of \$1.2 million, or 2¢ per diluted share, for the nine months ended September 30, 2014, as compared to a net loss from continuing operations of \$70.1 million for the nine months ended September 30, 2013 or \$1.45 per share. The net change in the nine months ended September 30, 2014 was primarily due to higher oil production, improved natural gas prices, lower interest expense and lower losses on derivative financial instruments, which were partially offset by lower natural gas volumes, higher DD&A, higher operating expenses and the gains from sales of marketable securities in 2013. We had net income from discontinued operations of \$148.6 million or \$3.08 per share for the nine months ended September 30, 2013.

#### Liquidity and Capital Resources

Funding for our activities has historically been provided by our operating cash flow, debt or equity financings or proceeds from asset sales. For the nine months ended September 30, 2014, our primary source of funds were cash provided by operating activities from continuing operations of \$329.0 million, net borrowings of \$95.0 million under our bank credit facility and net proceeds from our senior notes offering of \$103.3 million. Our net cash flow from operating activities of continuing operations increased \$115.7 million (54%) in the first nine months of 2014 to \$329.0 million from \$213.3 million for the first nine months of 2013 mainly due to higher revenues resulting from increased oil production and improved natural gas prices.

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 2014, we

incurred capital expenditures, on an accrual basis from continuing operations, of \$446.0 million primarily for our development and exploration activities.

The following table summarizes our capital expenditure activity, on an accrual basis, for the nine months ended September 30, 2014 and 2013:

|                                                                            | Nine Months Ended<br>September 30,<br>2014          2013<br>(In thousands) |                        |
|----------------------------------------------------------------------------|----------------------------------------------------------------------------|------------------------|
| Exploration and development:                                               |                                                                            |                        |
| Proved property acquisitions                                               | \$2,400                                                                    | \$—                    |
| Exploratory leasehold                                                      | 65,750                                                                     | 14,114                 |
| Development leasehold                                                      | 2,909                                                                      | 366                    |
| Exploratory drilling                                                       | 30,787                                                                     | —                      |
| Development drilling                                                       | 334,967                                                                    | 229,694                |
| Other development                                                          | 9,163                                                                      | 4,423                  |
| Total capital expenditures related to continuing operations <sup>(1)</sup> | 445,976 <sup>(1)</sup>                                                     | 248,597 <sup>(1)</sup> |
| Capital expenditures related to discontinued operations                    | —                                                                          | 91,471                 |
|                                                                            | \$445,976                                                                  | \$340,068              |

(1) Net of \$26.0 million and \$34.9 million received from joint venture partner for participation in drilling activity for the nine months ended September 30, 2014 and 2013, respectively.

We expect to spend approximately \$580.0 million for developmental and exploratory drilling and for acquisition of leases during 2014. We expect to fund our development and exploration activities with operating cash flow and borrowings under our bank credit facility.

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. Consequently, we have a significant degree of flexibility to adjust the level of our capital expenditures as circumstances warrant. As of September 30, 2014, we have contracted for the services of drilling rigs through May 2017 at an aggregate cost of \$56.3 million. In addition, we have maximum commitments of \$13.4 million to transport and treat natural gas through July 2019. 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 2019. We record a separate liability for these asset retirement obligations which totaled \$16.1 million as of September 30, 2014.

We have a \$1.0 billion bank credit facility with Bank of Montreal, as the administrative agent. The bank credit facility is a five-year revolving credit commitment that matures on November 22, 2018. Indebtedness under the bank credit facility is secured by all of our assets and is guaranteed by all of our wholly owned subsidiaries. The bank 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 gas properties. As of September 30, 2014, the borrowing base was \$700.0 million, of which \$395.0 million was available. The borrowing base may be affected by the performance of our 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. Borrowings under the bank credit facility bear interest, based on the utilization of the borrowing base, at our option at either (1) LIBOR plus 1.5% to 2.5% or (2) the base rate (which is the higher of the administrative agent's prime rate, the federal funds rate plus 0.5% or 30 day LIBOR plus 1.0%) plus 0.5% to 1.5%. A commitment fee of 0.375% to 0.5%, based on the utilization of the borrowing base, is payable annually on the unused borrowing base. The bank credit facility contains covenants that, among other things, restrict the payment of cash dividends and repurchases of common stock in excess of \$120.0 million per year, 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 leverage ratio and the maintenance of an interest coverage ratio. We were in compliance with these covenants as of September 30, 2014.

We have \$400.0 million of 7¾% senior notes (the “2019 Notes”) outstanding which are due on April 1, 2019 and bear interest which is payable semi-annually on each April 1 and October 1. We also have \$300.0 million of 9½% senior notes (the “2020 Notes”) which are due on June 15, 2020 and bear interest which is payable semi-annually on each June 15 and December 15. During the three months ended September 30, 2014 we issued \$100.0 million of the 2019 Notes in a public offering. Net proceeds from the issuance of the additional 2019 Notes of \$103.3 million were used to pay down borrowings under our bank credit facility. The 2019 Notes and 2020 Notes are unsecured obligations and are guaranteed by all of our material subsidiaries. Such subsidiary guarantors are 100% owned and all of the guarantees are full and unconditional and joint and several obligations. As of September 30, 2014, we had no material assets or operations which are independent of our subsidiaries. There are no restrictions on our ability to obtain funds from our subsidiaries through dividends or loans.

We believe that our cash flow from operations, proceeds from asset sales, cash on hand and available borrowings under our bank credit facility 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 acceptable terms.

### 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 natural gas and oil. 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 natural gas and oil 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 natural gas and oil 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 natural gas and oil 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, 2014, a \$0.10 change in the price per Mcf of natural gas would have changed our cash flow from continuing operations by approximately \$2.9 million and a \$1.00 change in the price per barrel of oil would have resulted in a change in our cash flow from continuing operations for such period by approximately \$1.3 million after considering gains or losses from our oil price swap agreements.

We have hedged a portion of our price risks associated with our oil sales. As of September 30, 2014, our outstanding oil price swap agreements had a fair asset value of \$3.9 million. A change in the fair value of our oil swaps that would result from a 10% change in commodities prices at September 30, 2014 would be \$3.7 million. Such a change in fair value could be a gain or a loss depending on whether prices increase or decrease.

Gains and losses on settlements and changes in the fair value of our swap agreements are reported as a separate component of other income (loss) in the consolidated statement of operations. None of our derivative contracts have margin requirements or collateral provisions that could require funding prior to the scheduled cash settlement date.

#### Interest Rates

At September 30, 2014, we had approximately \$1.0 billion of long-term debt outstanding. Of this amount, \$400.0 million bears interest at a fixed rate of 7¾% and \$300.0 million bears interest at a fixed rate of 9½%. The fair market value of our fixed rate debt as of September 30, 2014 was \$745.0 million based on the market price of approximately 107% of the face amount. At September 30, 2014, we had \$305.0 million outstanding under our bank credit facility, which is subject to variable rates of interest that are tied to LIBOR or the corporate base rate, at our option. Any increase in these interest rates would have an adverse impact on our results of operations and cash flow. Based on borrowings outstanding at September 30, 2014, a 100 basis point change in interest rates would change our annual interest expense on our variable rate debt by approximately \$2.3 million. We had no interest rate derivatives outstanding during 2013 or at September 30, 2014.

ITEM 4: CONTROLS AND PROCEDURES

As of September 30, 2014, 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, 2014 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, 2014, 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

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.

101.INS\* XBRL Instance Document

101.SCH\* XBRL Schema Document

101.CAL\* XBRL Calculation Linkbase Document

101.LAB\* XBRL Labels Linkbase Document

101.PRE\* XBRL Presentation Linkbase Document

101.DEF\* XBRL Definition Linkbase Document

\*Filed herewith.

†Furnished 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 5, 2014 /s/ M. JAY ALLISON

M. Jay Allison, Chairman, Chief  
Executive Officer (Principal Executive Officer)

Date: November 5, 2014 /s/ ROLAND O. BURNS

Roland O. Burns, President, Chief Financial  
Officer and Secretary

(Principal Financial and Accounting Officer)