COMSTOCK RESOURCES INC
Form 10-Q
August 07, 2006

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

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For The Quarter Ended June 30, 2006
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File No. 0-16741
COMSTOCK RESOURCES, INC.
(Exact name of registrant as specified in its charter)

NEVADA	**94-1667468**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

5300 Town and Country Blvd., Suite 500, Frisco, Texas 75034
(Address of principal executive offices)
Telephone No.: **(972) 668-8800**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days.

Yes þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

The number of shares outstanding of the registrant s common stock, par value $.50, as of August 7, 2006 was 43,105,762.

COMSTOCK RESOURCES, INC.
QUARTERLY REPORT
For The Quarter Ended June 30, 2006
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Awareness Letter of Ernst & Young LLP
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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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COMSTOCK RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2006	December 31, 2005
	(In thousands)	
ASSETS		
Cash and Cash Equivalents	$ 671	$ 89
Accounts Receivable:		
Oil and gas sales	26,204	37,646
Joint interest operations	8,327	5,553
Other Current Assets	5,521	9,482
Total current assets	40,723	52,770
Property and Equipment:		
Unevaluated oil and gas properties	10,731	10,723
Oil and gas properties, successful efforts method	1,095,203	1,018,341
Other	3,474	3,342
Accumulated depreciation, depletion and amortization	(357,227)	(325,478)
Net property and equipment	752,181	706,928
Assets Held for Sale	6,518	
Investment in Bois d Arc Energy	267,269	252,134
Other Assets	4,340	4,831
	$ 1,071,031	$ 1,016,663
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts Payable	$ 37,353	$ 44,216
Accrued Expenses	12,622	12,659
Unrealized Loss on Derivatives	1,111	11,242
Total current liabilities	51,086	68,117
Long-term Debt	243,000	243,000
Deferred Income Taxes Payable	139,383	119,481
Reserve for Future Abandonment Costs	3,349	3,206
Total liabilities	436,818	433,804
Commitments and Contingencies		
Stockholders Equity:		
Common stock $0.50 par, 50,000,000 shares authorized, 43,105,762 and 42,969,262 shares outstanding at June 30, 2006 and December 31, 2005, respectively	21,553	21,485
Additional paid-in capital	345,065	338,996
Retained earnings	267,595	222,378

Total stockholders equity	634,213	582,859
	$ 1,071,031	$ 1,016,663

The accompanying notes are an integral part of these statements.

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COMSTOCK RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
	(In thousands, except per share amounts)			
Oil and gas sales	$ 64,571	$ 68,529	$ 134,462	$ 138,351
Operating expenses:				
Oil and gas operating	13,200	12,879	27,055	26,066
Exploration		15,201	344	17,286
Depreciation, depletion and amortization	16,568	15,979	32,860	33,332
Loss on disposal of oil and gas properties	7,934		7,934	
General and administrative, net	4,592	3,769	9,486	7,957
Total operating expenses	42,294	47,828	77,679	84,641
Income from operations	22,277	20,701	56,783	53,710
Other income (expenses):				
Interest income	172	459	340	1,207
Other income	48	32	102	136
Interest expense	(4,537)	(4,719)	(8,943)	(10,517)
Equity in earnings (loss) of Bois d Arc Energy	7,088	(61,225)	15,135	(61,225)
Gain on sale of stock by Bois d Arc Energy		28,797		28,797
Gain (loss) on derivatives	1,303	7	9,428	(3,231)
Total other income (expenses)	4,074	(36,649)	16,062	(44,833)
Income (loss) before income taxes	26,351	(15,948)	72,845	8,877
(Provision for) benefit from income taxes	(10,768)	5,070	(27,628)	(3,867)
Net income (loss)	$ 15,583	$ (10,878)	$ 45,217	$ 5,010
Net income per share:				
Basic	$ 0.37	$ (0.27)	$ 1.07	$ 0.13
Diluted	$ 0.36	$ (0.27)	$ 1.04	$ 0.12
Weighted average common and common stock equivalent shares outstanding:				
Basic	42,077	39,762	42,070	37,393
Diluted	43,521	39,762	43,481	39,570

The accompanying notes are an integral part of these statements.

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COMSTOCK RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
For the Six Months Ended June 30, 2006
(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
		(In thousands)		
Balance at December 31, 2005	$ 21,485	$ 338,996	$ 222,378	$ 582,859
Stock based compensation		3,473		3,473
Exercise of stock options	68	1,674		1,742
Excess tax benefit from stock-based compensation		922		922
Net income			45,217	45,217
Balance at June 30, 2006	$ 21,553	$ 345,065	$ 267,595	$ 634,213

The accompanying notes are an integral part of these statements.

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COMSTOCK RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2006	**2005**
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 45,217	$ 5,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Dry hole costs and leasehold impairments	75	14,460
Depreciation, depletion and amortization	32,860	33,332
Loss on disposal of oil and gas properties	7,934	
Debt issuance cost amortization	471	471
Stock-based compensation	3,473	3,178
Excess tax benefit from stock-based compensation	(922)	
Deferred income taxes	24,927	1,763
Equity in (earnings) loss of Bois d Arc Energy	(15,135)	61,225
Gain on sale of stock by Bois d Arc Energy		(28,797)
(Gain) loss from derivatives	(9,428)	3,231
Decrease in accounts receivable	8,668	2,719
Increase in other current assets	(142)	(4)
Increase (decrease) in accounts payable and accrued expenses	(5,961)	2,245
Net cash provided by operating activities	92,037	98,833
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and acquisitions	(93,416)	(279,846)
Advances to Bois d Arc Energy		(6,421)
Repayments from Bois d Arc Energy		158,066
Payments to settle derivatives	(703)	
Net cash used for investing activities	(94,119)	(128,201)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	4,000	166,000
Principal payments on debt	(4,000)	(262,150)
Proceeds from issuance of common stock	1,742	125,941
Stock issuance costs		(92)
Excess tax benefit from stock-based compensation	922	
Net cash provided by financing activities	2,664	29,699
Net increase in cash and cash equivalents	582	331
Cash and cash equivalents, beginning of period	89	2,703

Cash and cash equivalents, end of period	$	671	$	3,034

The accompanying notes are an integral part of these statements.

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COMSTOCK RESOURCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006
(Unaudited)

(1) SIGNIFICANT ACCOUNTING POLICIES -

Basis of Presentation

In management s opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position of Comstock Resources, Inc. and subsidiaries (Comstock or the Company) as of June 30, 2006 and the related results of operations and cash flows for the six months ended June 30, 2006 and 2005.

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, 2005.

These unaudited consolidated financial statements include the accounts of Comstock and subsidiaries in which it has a controlling interest. Investments in 50% or less owned entities are accounted for using the equity method of accounting. Intercompany balances and transactions have been eliminated in consolidation.

The results of operations for the six months ended June 30, 2006 are not necessarily an indication of the results expected for the full year.

Reclassifications

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

Investment in Bois d Arc Energy

As of March 31, 2005, Comstock owned 60% of Bois d Arc Energy, LLC, a limited liability company that conducted exploration, development and production operations in state and federal waters in the Gulf of Mexico. Comstock accounted for its interest in Bois d Arc Energy, LLC based on its proportionate ownership in such entity until May 10, 2005 when Bois d Arc Energy, LLC was converted to a corporation and changed its name to Bois d Arc Energy, Inc. (Bois d Arc Energy). On May 11, 2005 Bois d Arc Energy completed an initial public offering of 13.5 million shares of common stock at $13.00 per share to the public. Bois d Arc Energy sold 12.0 million shares of common stock and received net proceeds of $145.1 million and a selling stockholder sold 1.5 million shares. On May 11, 2005, Bois d Arc Energy used the proceeds from its initial public offering together with borrowings under a new bank credit facility to repay $158.1 million in outstanding advances from Comstock. As a result of Bois d Arc Energy s conversion to a corporation and the initial public offering, Comstock s ownership in Bois d Arc Energy decreased to 48% and Comstock discontinued accounting for its interest in Bois d Arc Energy using the proportionate consolidation method and began using the equity method to account for its investment in Bois d Arc Energy.

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COMSTOCK RESOURCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Comstock s investment in Bois d Arc Energy represents the value of the assets contributed at the time of Bois d Arc Energy s formation, the Company s 60% interest in the undistributed earnings of Bois d Arc Energy from inception through May 10, 2005, the portion of Bois d Arc Energy s net income attributable to the Company s interest in the outstanding common stock of Bois d Arc Energy since the adoption of the equity method of accounting for this investment, and the gain recognized based on the Company s share of the amount that Bois d Arc Energy s equity increased as a result of the sale of shares in Bois d Arc Energy s initial public offering.

Bois d Arc Energy s common stock is traded on the New York Stock Exchange under the ticker symbol BDE. The fair value of the Company s investment in Bois d Arc Energy as of June 30, 2006 was $493.0 million based upon the closing price for Bois d Arc Energy shares on that date of $16.47 per share.

Financial information reported by Bois d Arc Energy is summarized below:

Balance Sheet:

	June 30, 2006	December 31, 2005
	(In thousands)	
Current assets	$ 51,452	$ 50,172
Property and equipment, net	741,164	661,931
Other assets	703	799
Total assets	$ 793,319	$ 712,902
Current liabilities	$ 73,198	$ 66,406
Long-term debt	90,000	69,000
Deferred taxes payable	138,344	123,256
Reserve for future abandonment costs	37,988	35,034
Total liabilities	339,530	293,696
Stockholders equity	453,789	419,206
Total liabilities and stockholders equity	$ 793,319	$ 712,902

Income Statement:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands)			
Revenues	$ 59,607	$ 48,685	$ 121,440	$ 92,161
Operating Income	24,086	20,624	51,314	39,409
Net Income (Loss)	14,783	(92,441)[(1)]	31,564	(75,379)[(1)]

(1) Includes a tax provision of $108.2 million

for the conversion of Bois d Arc Energy from a limited liability company to a corporation.

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COMSTOCK RESOURCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Income Taxes

Deferred income taxes are provided to reflect the future tax consequences or benefits of differences between the tax basis of assets and liabilities and their reported amounts in the financial statements using enacted tax rates. The difference between the Company s customary rate of 35% and the effective tax rate of 40.9% and 37.9% for the three months and six months ended June 30, 2006, respectively is due to permanent book tax differences, primarily nondeductible stock-based compensation and the provision for record deferred taxes related to a state tax law change enacted during the three months ended June 30, 2006.

The following is an analysis of the consolidated income tax expense:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
	(In thousands)			
Current provision	$ 1,313	$ 987	$ 2,701	$ 2,104
Deferred provision (benefit)	9,455	(6,057)	24,927	1,763
Provision for (benefit from) Income Taxes	$ 10,768	$ (5,070)	$ 27,628	$ 3,867

Stock-Based Compensation

Effective January 1, 2006 Comstock adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment (SFAS 123R) in accounting for employee stock-based compensation, including the supplemental guidance provided in Staff Accounting Bulletin No. 107. The Company adopted SFAS 123R utilizing the modified prospective transition method and accordingly the financial results for periods prior to January 1, 2006 have not been adjusted. Prior to adopting SFAS 123R the Company followed the fair value based method prescribed in Statement of Financial Accountings Standards No. 123, Accounting for Stock Based Compensation for all periods beginning January 1, 2004. Under the fair value based 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. Because the Company previously recorded stock-based compensation using the fair value method, adoption of SFAS 123R did not have a significant impact on the Company s net income or earnings per share for the three months and six months ended June 30, 2006. During the three months ended June 30, 2006 and 2005, the Company recognized $1.8 million and $1.4 million, respectively, in stock-based compensation expense within general and administrative expenses. The excess income tax benefit realized from tax deductions associated with stock-based compensation totaled $0.7 million for the three months ended June 30, 2006. Stock based compensation expense for the six months ended June 30, 2006 and 2005 was $3.5 million and $3.2 million, respectively. The excess income tax benefit realized from the deductions associated with stock-based compensation for the six months ended June 30, 2006 and 2005 was $0.9 million and $3.5 million, respectively.

Prior to adopting SFAS 123R, the Company presented all tax benefits of the deductions that resulted from stock-based compensation as cash flows from operating activities. SFAS 123R requires that excess tax benefits on stock-based compensation be recognized as a part of cash flows from financing activities. Upon adoption of SFAS 123R effective January 1, 2006, $0.9 million of tax benefits have been included in cash flows from financing activities for the six months ended June 30, 2006.

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Stock options. The Company amortizes the fair value of stock options granted over the vesting period using the straight-line method. The fair value of each award is estimated as of the date of grant using the Black-Scholes options pricing model. There were no options granted during the six months ended June 30, 2006. Total compensation expense recognized for all outstanding stock options for the three months ended June 30, 2006 and 2005 was $0.3 million and $0.3 million, respectively. Total compensation expense recognized for all outstanding stock options for the six months ended June 30, 2006 and 2005 was $0.4 million and $0.8 million, respectively. During the six months ended June 30, 2006, options to purchase 136,500 shares were exercised with an intrinsic value of $2.4 million. Total unrecognized compensation cost related to non-vested stock options of $2.1 million is expected to be recognized over a period of 3.4 years. A summary of outstanding and exercisable options as of June 30, 2006 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value
				(In thousands)
Options Outstanding	1,627,470	$10.00	2.9	$32,662
Options Exercisable	1,495,970	$ 8.03	2.4	$32,662

Restricted stock. The fair value of restricted stock grants is amortized over the vesting period using the straight-line method. The fair value of each restricted share on the date of grant is equal to its fair market price. There were no restricted stock grants made during the six months ended June 30, 2006. Total compensation expense recognized for restricted stock grants for the three months ended June 30, 2006 and 2005 was $1.5 million and $1.1 million, respectively. Total compensation expense for restricted stock grants for the six months ended June 30, 2006 and 2005 was $3.1 million and $2.4 million, respectively. Total unrecognized compensation cost related to non-vested restricted stock of $15.9 million as of June 30, 2006 is expected to be recognized over a weighted average period of 3.5 years. As of June 30, 2006 the Company had 919,500 shares of unvested restricted stock outstanding at a weighted average grant date fair value of $23.45 per share.

Asset Retirement Obligations

Comstock s primary 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 six months ended June 30, 2006 and 2005:

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(In thousands)	
Future abandonment liability beginning of period	$ 3,206	$ 19,248
Accretion expense	101	74
New wells placed on production	70	299
Liabilities settled	(28)	
Bois d Arc Energy abandonment liability[(1)]		(16,915)
Future abandonment liability end of period	$ 3,349	$ 2,706

(1) Comstock s share of the asset retirement obligations of Bois d Arc Energy were reclassified to the investment in Bois d Arc Energy upon the change to the equity accounting method.

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COMSTOCK RESOURCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Earnings Per Share

Basic earnings per share is determined without the effect of any outstanding potentially dilutive stock options or other convertible securities and diluted earnings per share is determined with the effect of outstanding stock options and other convertible securities that are potentially dilutive. Basic and diluted earnings per share for the three months and six months ended June 30, 2006 and 2005, respectively, were determined as follows:

	Three Months Ended June 30,					
	2006			2005		
	Income	Shares	Per Share	Income	Shares	Per Share
	(In thousands, except per share amounts)					
Basic Earnings Per Share:						
Net Income	$ 15,583	42,077	$ 0.37	$ (10,878)	39,762	$ (0.27)
Diluted Earnings Per Share:						
Net Income	$ 15,583	42,077		$ (10,878)	39,762	
Effect of Dilutive Securities:						
Stock Grants and Options		1,444			(1)	
Net Income Available to Common Stockholders With Assumed Conversions	$ 15,583	43,521	$ 0.36	$ (10,878)	39,762(1)	$ (0.27)(1)

	Six Months Ended June 30,					
	2006			2005		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic Earnings Per Share:						
Net Income	$ 45,217	42,070	$ 1.07	$ 5,010	37,393	$ 0.13
Diluted Earnings Per Share:						
Net Income	$ 45,217	42,070		$ 5,010	37,393	
Effect of Dilutive Securities:						
Stock Grants and Options		1,411			2,177	
Net Income Available to Common Stockholders With Assumed Conversions	$ 45,217	43,481	$ 1.04	$ 5,010	39,570	$ 0.12

(1) For the three months ended June 30, 2005, the effect of stock grants and options of 1,995 shares would have been antidilutive due to the net loss.

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COMSTOCK RESOURCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Derivative Instruments and Hedging Activities

Comstock periodically uses swaps, floors and collars to hedge oil and natural gas prices and interest rates. Swaps are settled monthly based on differences between the prices specified in the instruments and the settlement prices of futures contracts. Generally, when the applicable settlement price is less than the price specified in the contract, Comstock receives a settlement from the counter party based on the difference multiplied by the volume or amounts hedged. Similarly, when the applicable settlement price exceeds the price specified in the contract, Comstock pays the counter party based on the difference. Comstock generally receives a settlement from the counter party for floors when the applicable settlement price is less than the price specified in the contract, which is based on the difference multiplied by the volume amounts hedged. For collars, generally Comstock receives a settlement from the counter party when the settlement price is below the floor and pays a settlement to the counter party when the settlement price exceeds the cap. No settlement occurs when the settlement price falls between the floor and cap.

The following table sets forth the derivative financial instruments outstanding at June 30, 2006 which relate to Comstock s natural gas production:

Period Beginning	Period Ending	Volume MMBtu	Delivery Location	Type of Instrument	Floor Price	Ceiling Price
July 1, 2006	December 31, 2006	1,536,000	Henry Hub	Collar	$ 4.50	$ 9.02
July 1, 2006	December 31, 2006	1,200,000	Houston Ship Channel	Collar	$ 4.50	$ 8.25

The fair value of the Company s derivative contracts held for price risk management at June 30, 2006 was a liability of $1.1 million. Comstock did not designate these instruments as cash flow hedges and accordingly, an unrealized gain on derivatives of $1.3 million and $10.1 million was recorded for the three months and six months ended June 30, 2006, respectively and an unrealized loss of $3.2 million was recorded for the six months ended June 30, 2005 to reflect the change in this liability. The Company realized losses of $0.7 million for the six months ended June 30, 2006 to settle derivative positions.

Supplementary Information With Respect to the Consolidated Statements of Cash Flows -

	For the Six Months Ended June 30, 2006	2005
	(In thousands)	
Cash Payments		
Interest payments	$ 8,682	$ 10,453
Income tax payments	$ 4,651	$ 1,554

(2) LONG-TERM DEBT -

At June 30, 2006, Comstock s long-term debt was comprised of the following:

	(In thousands)
Revolving Bank Credit Facility	$ 68,000
$6^7/_8$% Senior Notes due 2012	175,000

$	243,000

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COMSTOCK RESOURCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Comstock has $175.0 million of $6^{7}/_{8}$% senior notes which are due March 1, 2012, with interest payable semiannually on each March 1 and September 1. These notes are unsecured obligations of the Company and are guaranteed by the Company s wholly owned subsidiaries. Comstock also has a $400.0 million bank credit facility with Bank of Montreal, as the administrative agent. The credit facility is a four-year revolving credit commitment that matures on February 25, 2008. Indebtedness under the credit facility is secured by Comstock s wholly-owned subsidiaries oil and gas properties and is guaranteed by all of its wholly-owned subsidiaries. The credit facility is subject to borrowing base availability, which is redetermined semiannually based on the banks estimates of the future net cash flows of Comstock s oil and natural gas properties. The borrowing base may be affected by the performance of Comstock s properties and changes in oil and natural gas prices. The determination of the borrowing base is at the sole discretion of the administrative agent and the bank group. The borrowing base was $350.0 million as of June 30, 2006. Borrowings under the credit facility bear interest, based on the utilization of the borrowing base, at Comstock s option at either LIBOR plus 1.25% to 1.75% or the base rate (which is the higher of the prime rate or the federal funds rate) plus 0% to 0.5%. A commitment fee of 0.375% is payable on the unused borrowing base. The credit facility contains covenants that, among other things, restrict the payment of cash dividends, limit the amount of consolidated debt that Comstock may incur and limit its ability to make certain loans and investments. The only financial covenants are the maintenance of a current ratio and maintenance of a minimum tangible net worth. Comstock was in compliance with these covenants as of June 30, 2006.

(3) COMMITMENTS AND CONTINGENCIES

From time to time, Comstock is involved in certain litigation that arises in the normal course of its operations. The Company records a loss contingency for these matters when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company does not believe the resolution of these matters will have a material effect on the Company s financial position or results of operations.

(4) ASSETS HELD FOR SALE

The Company has entered into an agreement to sell its oil and gas properties in Kentucky to a third party for $7.0 million. The Company has recorded a $7.9 million loss on this pending sale which is expected to close in October 2006. The Company s investment in these properties of $6.5 million is presented as Assets Held for Sale in the accompanying consolidated balance sheet as of June 30, 2006 at its expected realizable value.

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INDEPENDENT ACCOUNTANTS REVIEW REPORT

We have reviewed the consolidated balance sheet of Comstock Resources, Inc. (a Nevada corporation) and subsidiaries (the Company) as of June 30, 2006, and the related consolidated statements of operations for the three-month and six-month periods ended June 30, 2006 and 2005, the consolidated statement of stockholders equity for the six months ended June 30, 2006, and the consolidated statements of cash flows for the six-month periods ended June 30, 2006 and 2005. These financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Comstock Resources, Inc. and subsidiaries as of December 31, 2005, and the related consolidated statements of income, stockholders equity, and cash flows for the year then ended not presented herein, and in our report dated March 13, 2006 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Dallas, Texas
August 2, 2006

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BOIS d ARC ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2006	December 31, 2005
	(In thousands)	
ASSETS		
Cash and Cash Equivalents	$ 7,360	$ 12,043
Accounts Receivable:		
Oil and gas sales	21,242	25,520
Joint interest operations	8,170	8,364
Prepaid Expenses	14,680	4,245
Total current assets	51,452	50,172
Oil and Gas Properties:		
Proved properties	301,384	299,947
Unevaluated properties	12,664	13,533
Wells and related equipment and facilities	727,761	620,778
Accumulated depreciation, depletion and amortization	(302,839)	(274,434)
Net oil and gas properties	738,970	659,824
Other Property and Equipment, net of accumulated depreciation of $1,057 and $875 as of June 30, 2006 and December 31, 2005, respectively	2,194	2,107
Other Assets	703	799
	$ 793,319	$ 712,902
LIABILITIES AND STOCKHOLDERS EQUITY		
Short-term Debt	$ 9,750	$
Accounts Payable	41,136	48,005
Accrued Expenses	22,312	18,401
Total current liabilities	73,198	66,406
Long-Term Debt	90,000	69,000
Deferred Income Taxes Payable	138,344	123,256
Reserve for Future Abandonment Costs	37,988	35,034
Total liabilities	339,530	293,696
Commitments and Contingencies		
Stockholders Equity:		
Common stock $0.01 par, 100,000,000 shares authorized, 64,170,000 and 64,155,000 outstanding at June 30, 2006 and December 31, 2005, respectively	642	642
Additional paid-in capital	458,007	454,988
Retained earnings (deficit)	(4,860)	(36,424)

Total stockholders equity	453,789	419,206
	$ 793,319	$ 712,902

The accompanying notes are an integral part of these statements.

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BOIS d ARC ENERGY, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(In thousands, except per share amounts)			
Oil and gas sales	$ 59,607	$ 48,685	$ 121,440	$ 92,161
Operating expenses:				
Oil and gas operating	11,821	8,273	24,261	15,980
Exploration	3,718	4,554	8,249	7,690
Depreciation, depletion and amortization	16,495	12,785	30,888	24,606
Impairment	846		846	
Loss on disposal of assets		89		89
General and administrative, net	2,641	2,360	5,882	4,387
Total operating expenses	35,521	28,061	70,126	52,752
Income from operations	24,086	20,624	51,314	39,409
Other income (expenses):				
Interest income	57	50	126	95
Other income	327		327	
Interest expense	(1,569)	(981)	(2,646)	(2,749)
Total other expenses	(1,185)	(931)	(2,193)	(2,654)
Income before income taxes	22,901	19,693	49,121	36,755
Provision for income taxes	(8,118)	(112,134)	(17,557)	(112,134)
Net income (loss)	$ 14,783	$ (92,441)	$ 31,564	$ (75,379)
Net income (loss) per share (unit):				
Basic	$ 0.24	$ (1.62)	$ 0.51	$ (1.41)
Diluted	$ 0.23	$ (1.62)	$ 0.49	$ (1.41)
Weighted average common and common stock equivalent shares (units) outstanding:				
Basic	62,429	57,118	62,429	53,315
Diluted	64,515	57,118	64,472	53,315

Pro forma computation related to conversion to a corporation for income tax purposes:		
Income before income taxes	$ 19,693	$ 36,755
Pro forma provision for income taxes	(7,152)	(13,386)
Pro forma net income	$ 12,541	$ 23,369
Pro forma earnings per share (unit):		
Basic	$ 0.22	$ 0.44
Diluted	$ 0.21	$ 0.42
Weighted average common and common stock equivalent shares (units) outstanding:		
Basic	57,118	53,315
Diluted	58,857	54,997

The accompanying notes are an integral part of these statements.

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BOIS d ARC ENERGY, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
For the Six Months Ended June 30, 2006 (Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total
		(In thousands)		
Balance at December 31, 2005	$ 642	$ 454,988	$ (36,424)	$ 419,206
Stock-based compensation		3,019		3,019
Net income			31,564	31,564
Balance at June 30, 2006	$ 642	$ 458,007	$ (4,860)	$ 453,789

The accompanying notes are an integral part of these statements.

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BOIS d ARC ENERGY, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 31,564	$ (75,379)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred income taxes	15,088	110,954
Dry holes and leasehold impairments	6,554	
Depreciation, depletion and amortization	30,888	24,606
Impairments	846	
Stock-based compensation	3,019	2,745
Amortization of loan costs	108	6
Loss on disposal of assets		89
(Increase) decrease in accounts receivable	4,472	(17,194)
Increase in prepaid expenses	(685)	(2,191)
Increase (decrease) in accounts payable and accrued expenses	(7,827)	21,294
Net cash provided by operating activities	84,027	64,930
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(109,610)	(68,502)
Proceeds from sale of assets		160
Net cash used for investing activities	(109,610)	(68,342)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from Comstock Resources		16,000
Repayment to Comstock Resources		(164,066)
Borrowings under bank credit facility	56,000	11,000
Principal payments on bank credit facility	(35,000)	
Proceeds from issuance of common stock		145,080
Stock and debt issuance costs	(100)	(2,103)
Redemption of Class A units		(10)
Net cash provided by financing activities	20,900	5,901
Net increase (decrease) in cash and cash equivalents	(4,683)	2,489
Cash and cash equivalents, beginning of period	12,043	2,416
Cash and cash equivalents at end of period	$ 7,360	$ 4,905

The accompanying notes are an integral part of these statements.

BOIS d ARC ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006
(Unaudited)

(1) ORGANIZATION

Bois d Arc Energy, Inc. (Bois d Arc Energy or the Company) is engaged in the exploration for and production of oil and natural gas in the Gulf of Mexico and is the successor to Bois d Arc Energy, LLC following its conversion from a limited liability company to a corporation on May 10, 2005. References herein to Bois d Arc Energy or the Company include Bois d Arc Energy, LLC prior to its conversion to a corporation.

(2) 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 the Company as of June 30, 2006, the related results of operations for the three months and six months ended June 30, 2006 and 2005 and the cash flows of the Company for the six months ended June 30, 2006 and 2005, respectively.

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 the Company 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 the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

The results of operations for the six months ended June 30, 2006 are not necessarily an indication of the results expected for the full year.

Reclassifications

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

General and Administrative Expenses

General and administrative expenses were reduced by operating fee income received of $2.0 million and $1.6 million for the six months ended June 30, 2006 and 2005, respectively. The operating fee income is a reimbursement of the Company s general and administrative expenses. General and administrative expenses include fees paid to Comstock Resources, Inc. (Comstock) of $30,000 and $120,000 for the six months ended June 30, 2006 and 2005, respectively, for accounting services under a service agreement.

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BOIS d ARC ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Stock-Based Compensation

Effective January 1, 2006 Bois d Arc Energy adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment (SFAS 123R) in accounting for employee stock-based compensation, including the supplemental guidance provided in Staff Accounting Bulletin No. 107. The Company adopted SFAS 123R utilizing the modified prospective transition method and accordingly the financial results for periods prior to January 1, 2006 have not been adjusted. Prior to adopting SFAS 123R the Company followed the fair value based method prescribed in Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation for all periods beginning January 1, 2004. Under the fair value based 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. Because the Company previously recorded stock-based compensation using the fair value method, adoption of SFAS 123R did not have a significant impact on the Company s net income or earnings per share for the six months ended June 30, 2006. During the three months ended June 30, 2006 and 2005, the Company recognized $1.6 million and $1.4 million, respectively, in stock-based compensation expense within general and administrative expenses. The Company recognized stock-based compensation expense of $3.0 million and $2.7 million during the six months ended June 30, 2006 and 2005, respectively.

Prior to adopting SFAS 123R, the Company presented all tax benefits of the deductions that resulted from stock-based compensation as cash flows from operating activities. SFAS 123R requires that excess tax benefits on stock-based compensation be recognized as a part of cash flows from financing activities. The Company had no excess tax benefits from stock-based compensation for the six months ended June 30, 2006.

Stock options. The Company amortizes the fair value of stock options granted over the vesting period using the straight-line method. The fair value of each award is estimated as of the date of grant using the Black-Scholes options pricing model. Options to purchase 294,000 shares at exercise prices ranging from $14.23 to $16.47 per share were granted during the six months ended June 30, 2006. The fair value of the options awarded was $9.65 per option share. Total compensation expense recognized for all outstanding stock options for the three months ended June 30, 2006 and 2005 was $0.8 million and $0.7 million, respectively. Total compensation expense of $1.6 million and $1.3 million related to non-vested stock options was recognized during the six months ended June 30, 2006 and 2005 respectively. Total unrecognized compensation cost related to non-vested stock options of $12.2 million is expected to be recognized over a period of 5.0 years. A summary of outstanding and exercisable options as of June 30, 2006 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value
				(In thousands)
Options Outstanding	3,351,000	$ 7.57	8.2	$ 29,840
Options Exercisable	589,500	$ 6.33	7.8	$ 5,975

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BOIS d ARC ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Restricted stock. The fair value of restricted stock grants is amortized over the vesting period using the straight-line method. The fair value of each restricted share on the date of grant is equal to its fair market price. Restricted stock grants for 25,000 shares were made during the six months ended June 30, 2006. The value of the grants awarded were $15.48 per share. Total compensation cost recognized for restricted stock grants for the three months ended June 30, 2006 and 2005 was $0.8 million and $0.7 million, respectively. Total compensation expense of $1.4 million and $1.4 million for restricted stock grants was recognized during the six months ended June 30, 2006 and 2005, respectively. Total unrecognized compensation cost related to non-vested restricted stock of $9.2 million as of June 30, 2006, is expected to be recognized over a period of 4.8 years. As of June 30, 2006 the Company had 1,741,000 shares of unvested restricted stock outstanding at a weighted average grant date fair value of $6.92 per share.

Income Taxes

Bois d Arc Energy became a taxable entity as a result of its conversion from a limited liability company to a corporation on May 10, 2005. While Bois d Arc Energy was organized as a limited liability company, taxable income passed through to its unit owners. Accordingly, no provision for federal and state corporate income taxes was made for the operations of Bois d Arc Energy prior to May 10, 2005 in the accompanying consolidated financial statements. 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. Upon the conversion from a limited liability company to a corporation on May 10, 2005 the Company established a $108.2 million provision for deferred income taxes. The difference between the Company s customary rate of 35% and the effective tax rate of 35.4% and 35.7% for the three and six months ended June 30, 2006 is due to permanent book tax differences, primarily nondeductible stock based compensation.

The following is an analysis of the Company s consolidated income tax expense: