

---

COMSTOCK  
RESOURCES,  
INC.

---



---

1999  
ANNUAL  
REPORT

---

## MAJOR PROPERTIES



Region	1999 Reserves (Bcfe)		1999 Production (Bcfe)	
■ Gulf of Mexico	147	39%	15.0	41%
■ Southeast Texas	116	31%	12.3	33%
■ East Texas / North Louisiana	112	30%	9.3	26%
	375		36.6	

Comstock Resources, Inc. is a growing independent energy company based in Dallas, Texas engaged in the exploration, development, and production of oil and natural gas.

Comstock's operations are focused in the Gulf of Mexico, Southeast Texas, and East Texas / North Louisiana regions.

## PERFORMANCE HIGHLIGHTS



*(in thousands except per share data)*

	1995	1996	1997	1998	1999
<b>Financial Highlights</b>					
Revenues	\$ 22,374	\$ 70,955	\$ 89,344	\$ 93,235	\$ 92,144
Net income (loss) (a)	\$(31,333) <sup>(b)</sup>	\$ 24,066	\$ 21,746	\$(17,168) <sup>(b)</sup>	\$ (4,669)
Per common share	\$ (2.50) <sup>(b)</sup>	\$ 1.23	85¢	(71¢) <sup>(b)</sup>	(19¢)
Cash from operations (c)	\$ 8,669	\$ 43,111	\$ 62,608	\$ 50,163	\$ 42,787
Per common share	49¢	\$ 2.03	\$ 2.41	\$ 2.00	\$ 1.43
Total assets	\$120,099	\$222,002	\$456,800	\$429,672	\$434,973
Total debt	\$ 71,811	\$ 80,108	\$260,000	\$278,104	\$254,131
Stockholders' equity	\$ 30,128	\$118,216	\$124,594	\$109,663	\$137,174

*(a) From continuing operations and before extraordinary items.*

*(b) Includes non-cash after tax charge for impairment of oil and gas properties of \$29 million (\$2.32 per share) and \$11 million (46¢ per share) in 1995 and 1998, respectively.*

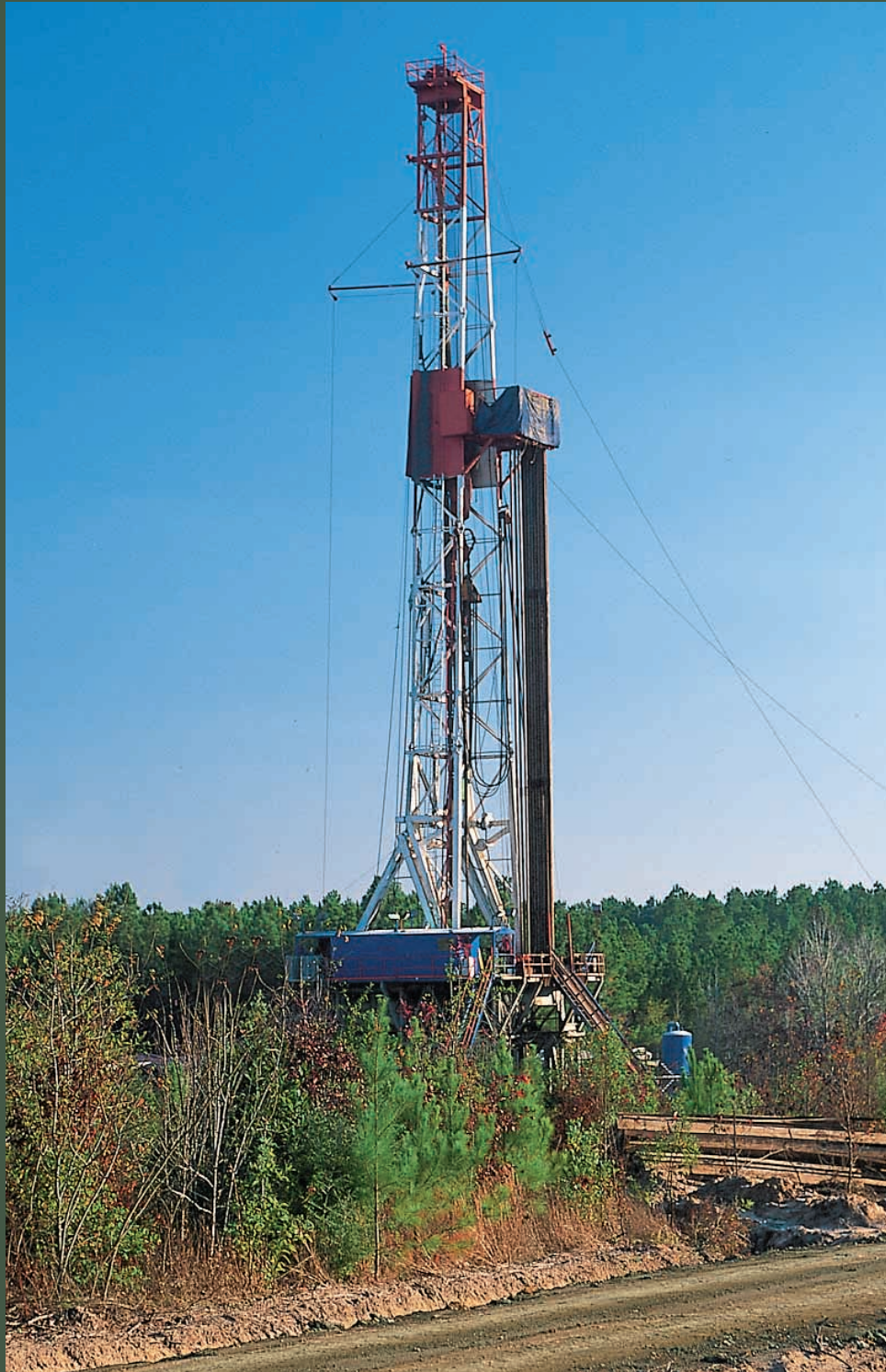
*(c) From continuing operations and before changes in working capital.*

### Operational Highlights

Capital expenditures	\$ 61,809	\$111,962	\$254,843	\$ 67,387	\$ 35,981
Net producing wells	395.7	266.1	294.0	311.7	274.0
Natural gas production (MMcf per day)	25.5	53.1	62.6	73.2	65.4
Oil production (Barrels per day)	974	2,601	3,680	7,044	5,831
Proved gas reserves (MMcf)	173,165	234,444	240,117	250,402	258,121
Proved oil reserves (MBbls)	3,779	8,994	20,927	20,245	19,467



DRILLING RIG AT THE DOUBLE A WELLS FIELD



TO OUR STOCKHOLDERS:

# We began 1999 by slashing our capital expenditure budget

In reviewing the Company's performance in 1999, I divide 1999 into two parts. In the first half of 1999, we faced a very difficult environment resulting from continued low oil and gas prices. In this environment we had to recapitalize the Company as Comstock had become overly dependent on inexpensive short-term commercial bank debt at a time when the banks had decided to pull their capital away from the exploration and production sector. The second half of 1999 saw a complete turnaround in commodity prices and we were able to shift our efforts to growing the Company after completing the recapitalization of Comstock at the end of April. Despite having only half of the year left when we restarted our drilling activities, we had a very successful drilling program in 1999 and continued to prove for the second straight year, that Comstock is a successful explorer of oil and natural gas reserves and is no longer just an "acquisitions" company. We were able to replace 108 % of our production in 1999 with our successful drilling program at overall finding costs of 89¢ per mcfe.

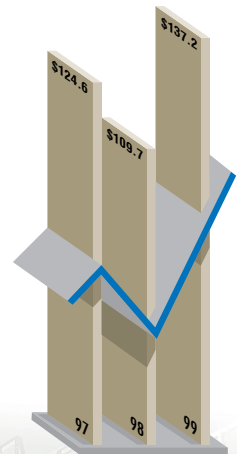
## RECAPITALIZATION

We began 1999 by slashing our capital expenditure budget after completing a very successful year in 1998 at the drill bit. We had positioned the Company to be able to

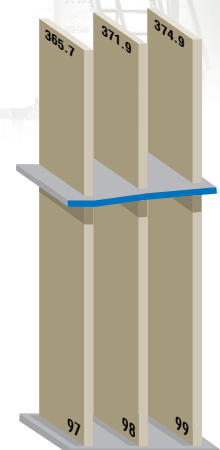


grow through balanced development and exploratory drilling in our core operating areas having made a substantial investment in 1997 to establish a new core area in the Gulf of Mexico. Despite achieving this goal, we had to drastically cut back our activity in order to survive the tough environment in which we found our industry with the collapse of crude oil prices and falling natural gas prices. Our commercial bank lenders, having seen many exploration and production companies fail, required that we repay a large amount of our outstanding borrowings out of our available cash flow. We set out in early 1999 to refinance a large portion of our bank debt with longer term capital. We were successful in attracting private equity capital

STOCKHOLDERS' EQUITY  
\$ in millions



OIL AND NATURAL GAS RESERVES  
billion cubic feet equivalent





OFFSHORE RIG DRILLING AT SOUTH PELTO BLOCK 5



# Comstock is a successful explorer of oil and natural gas reserves

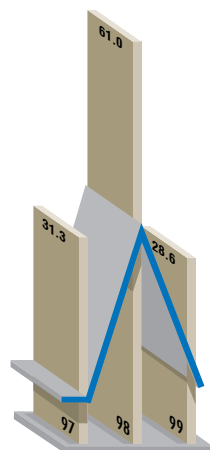
to the Company which allowed us to issue public debt in April 1999. We refinanced \$180 million of our bank debt and entered into a new credit facility which gave us over \$70 million of available credit in addition to substantial operating cash flow which will fund our drilling and acquisition activities. The new capital structure that we put in place not only solved the short term liquidity problems that the Company had when oil and gas prices were low, it also gave us substantial financial strength to continue to weather low commodity prices and to have capital to continue to grow the Company in this period where capital is not easily available to our sector.

## EAST TEXAS / NORTH

### LOUISIANA REGION

Even though we were not active in our East Texas / North Louisiana region until the fourth quarter, we had another successful year exploiting our properties in this region in 1999. Our properties in this region are characterized by long lived natural gas reserves which produce from relatively tight sands in the Hosston, Travis Peak

**DRILLING EXPENDITURES**  
\$ in millions



and Cotton Valley formations. The focus of our program in this region is drilling infill development wells and recompleting existing wells. In 1999 we drilled nine wells in this region with a success rate of 86%. The successful wells had an initial production ("IP")

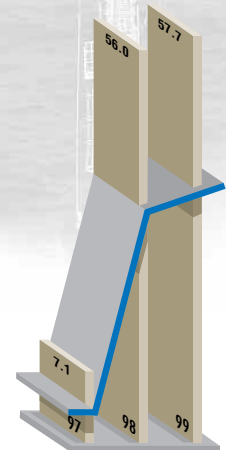
rate which averaged 1.5 million cubic feet of natural gas equivalent per day per well. Based on their IP rates, these new wells added 6.4 million cubic feet of natural gas equivalent to the Company's net daily production.

### GULF OF MEXICO REGION

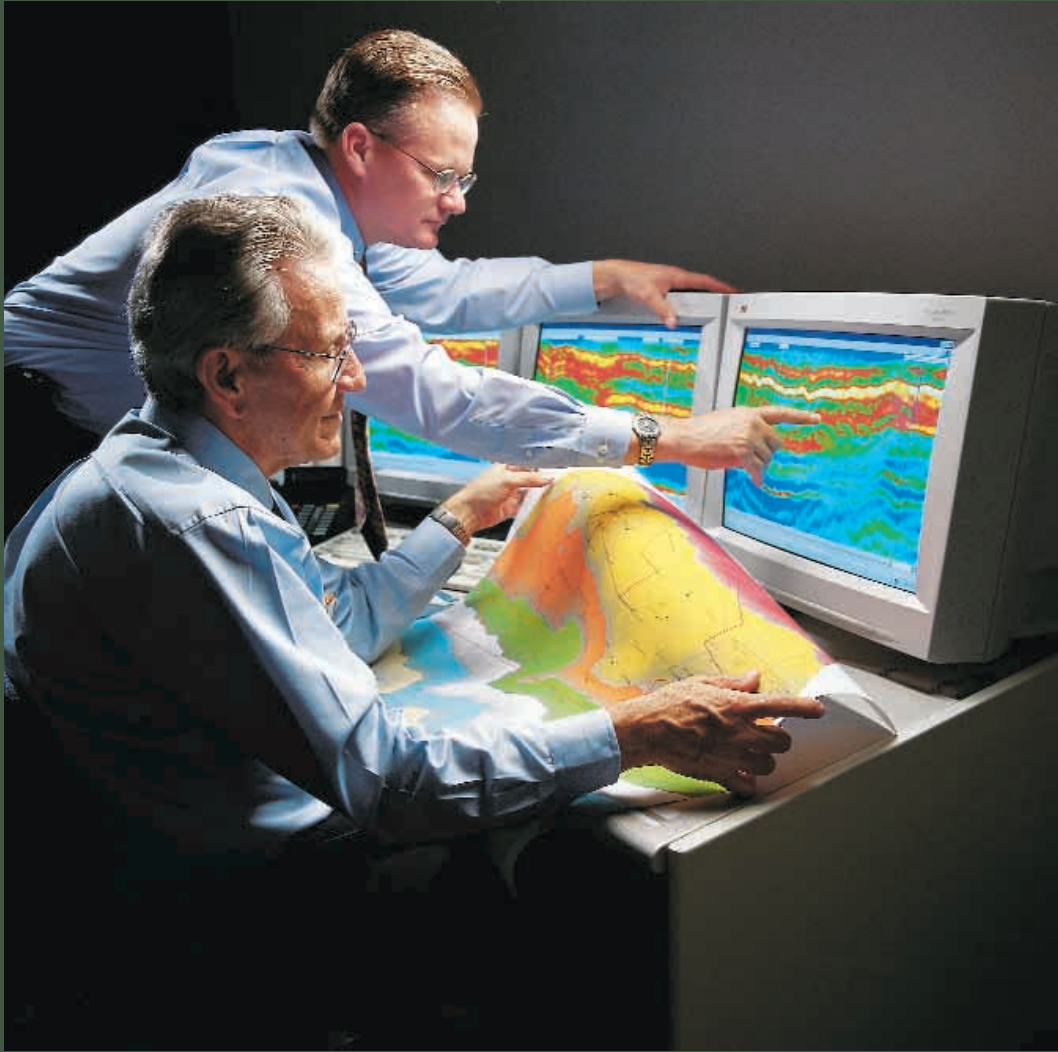
Despite a much lower level of spending in 1999, our Gulf of



**RESERVES ADDED THROUGH DRILLING**  
billion cubic feet equivalent



3-D SEISMIC WORKSTATION





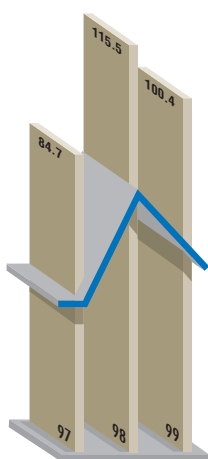
# Our greatest success in 1999 was at our Double A Wells field

Mexico exploratory program turned in exceptional results. Comstock's program in the Gulf of Mexico region in 1999 included drilling 14 wells (three development wells and 11 exploratory wells). All three of the development wells were successful. Seven of the 11 exploratory wells resulted in new discoveries which added 20 Bcfe to our proved oil and gas reserve base at year end. The successful wells in this region had an average IP rate of 4.2 million cubic feet of natural gas equivalent per day per well. These wells added 9.7 million cubic feet of natural gas equivalent per day to the Company's net daily production based on their IP rates.

## SOUTHEAST TEXAS REGION

Our greatest success in 1999 was at our Double A Wells field in Polk County, Texas in our Southeast Texas region. After drilling several dry holes in this field in 1997, we decided not to drill any additional wells in 1998 as our drilling results had indicated that we had reached the limits of the field. Instead we participated in a regional 3-D seismic shoot to increase our understanding of this geologically complex field. Upon studying the seismic, we discovered that there were substantial opportunities to add new

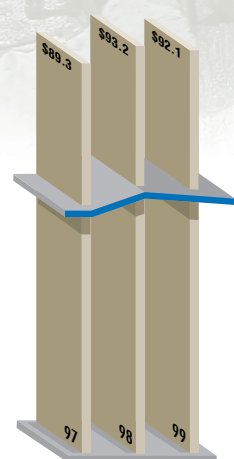
**DAILY PRODUCTION**  
million cubic feet equivalent/day



reserves at the Double A Wells field. We tested our interpretation of the 3-D seismic by reentering an unsuccessful well we drilled in 1997 and moving the bottom hole location based on where the 3-D data told us to drill. The result was a huge success, which allowed us to embark on a new redevelopment and exploratory program in and

around the Double A Wells field. Four of the five wells that we drilled at the Double A Wells field in this new program were successful and we were able to add 33 Bcfe to our proved oil and gas reserve base at year end. The successful wells in this region had an average IP rate of 10 million cubic feet of natural gas equivalent per day per well. These wells added 14.3 million cubic feet of natural gas equivalent per day to the Company's net daily production based on their IP rates.

**TOTAL REVENUES**  
\$ in millions



# *We are very excited about the position we are in entering 2000*

## FINANCIAL RESULTS

Our financial results in 1999 reflected the weak oil and gas price environment which was prolonged for Comstock by our natural gas price hedges and the low level of drilling activity in the first half of the year. Our oil and gas production decreased by 13% to 36.6 Bcfe. The production decrease was offset somewhat by improved crude oil prices while natural gas prices were mostly unchanged from 1998. Because of the improvement in oil prices, our realized price per mcf increased in 1999 by 12%. As a result our revenues in 1999 of \$92.1 million were 1% less than revenues in 1998. Our oil and gas operating costs were 4% lower in 1999, however oil and gas operating costs per Mcfe produced increased in 1999 to 65¢ from 59¢ in 1998. The increase is due to the lower production rate in 1999 since most of our lifting costs are more fixed in nature than variable. With an increase in production anticipated in 2000, we should see this trend reverse. We reported a net loss for 1999 of \$4.7 million or 19¢ per share, however, we did return to profitability in the fourth quarter of 1999 with a net profit of \$2.2 million.

## OUTLOOK FOR 2000

We are very excited about the position we are in entering 2000. Oil and gas prices have improved considerably and we are beginning the new millennium with a sub-



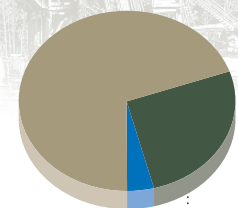
stantially higher production rate which is the result of the drilling success we had in the fourth quarter of 1999. We also have an inventory of excellent drilling prospects which can continue to fuel the Company's growth. We plan to drill 48 wells in 2000 and we have budgeted \$60 million for our drilling program in 2000, including \$20 million for exploratory activities in our Gulf of Mexico and Southeast Texas regions.

The directors and management of Comstock want to thank the stockholders for their continued support.

M. Jay Allison  
Chairman and President

## 1999 CASH MARGIN

Per thousand cubic feet equivalent  
\$2.47 Equivalent Price



Cash  
Margin  
\$1.75

G&A 7¢

Lifting 65¢

---

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 1999

OR

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

Commission File No. 0-16741

**COMSTOCK RESOURCES, INC.**

(Exact name of registrant as specified in its charter)

**NEVADA**

(State or other jurisdiction of  
incorporation or organization)

**94-1667468**

(I.R.S. Employer  
Identification Number)

**5300 Town and Country Blvd., Suite 500, Frisco, Texas 75034**

(Address of principal executive offices including zip code)

**(972) 668-8800**

(Registrant's telephone number and area code)

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

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

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

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

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

As of February 28, 2000, there were 25,375,197 shares of common stock outstanding.

As of February 28, 2000, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$92,850,000.

**DOCUMENTS INCORPORATED BY REFERENCE**

Proxy statement for the 2000 annual meeting of stockholders - Part III

---



# COMSTOCK RESOURCES, INC.

## ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 1999

### CONTENTS

	<u>Page</u>
<u>Part I</u>	
Items 1 and 2. Business and Properties . . . . .	6
Item 3. Legal Proceedings . . . . .	21
Item 4. Submission of Matters to a Vote of Security Holders . . . . .	21
<u>Part II</u>	
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters . . . . .	22
Item 6. Selected Financial Data . . . . .	23
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations . . . . .	24
Item 7A. Quantitative and Qualitative Disclosures About Market Risk . . . . .	28
Item 8. Financial Statements . . . . .	29
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure . . . . .	30
<u>Part III</u>	
Item 10. Directors and Executive Officers of the Registrant . . . . .	30
Item 11. Executive Compensation . . . . .	30
Item 12. Security Ownership of Certain Beneficial Owners and Management . . . . .	30
Item 13. Certain Relationships and Related Transactions . . . . .	30
<u>Part IV</u>	
Item 14. Exhibits and Reports on Form 8-K . . . . .	31

## FORWARD-LOOKING STATEMENTS

*This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts included in this report, including without limitation, statements under "Business and Properties" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding budgeted capital expenditures, increases in oil and natural gas production, the Company's financial position, oil and natural gas reserve estimates, business strategy and other plans and objectives for future operations, are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond our control. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be precisely measured. Furthermore, the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, estimates made by different engineers often vary from one another. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revisions of such estimate and such revision, if significant, would change the schedule of any further production and development drilling. Accordingly, reserve estimates are generally different from the quantities of oil and gas that are ultimately recovered. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove incorrect, our actual results and plans for 2000 and beyond could differ materially from those expressed in forward-looking statements. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by such factors.*

## DEFINITIONS

*The following are abbreviations and definitions of terms commonly used in the oil and gas industry and this report. Natural gas equivalents and crude oil equivalents are determined using the ratio of six Mcf to one barrel.*

"**API**" means American Petroleum Institute.

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

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

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

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

"**Cash Margin per Mcfe**" means the equivalent price per Mcfe less oil and gas operating expenses per Mcfe and general and administrative expenses per Mcfe.

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

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

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

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

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

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

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

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

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

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

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

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

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

**"Net production"** means production that is owned by the Company less royalties and production due others.

**"Oil"** means crude oil or condensate.

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

**"Present Value of Proved Reserves"** means the present value of estimated future revenues to be generated from the production of proved reserves calculated in accordance with the Securities and Exchange Commission guidelines, net of estimated production and future development costs, using prices and costs as of the date of estimation without future escalation, without giving effect to non-property related expenses such as general and administrative expenses, debt service, future income tax expense and depreciation, depletion and amortization, and discounted using an annual discount rate of 10%.

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



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

(i) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation tests. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

(iii) Estimates of proved reserves do not include the following: (A) oil that may become available from known reservoirs but is classified separately as "indicated additional reserves"; (B) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (C) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and (D) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such resources.

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

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

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

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

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

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

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

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

## PART I

### ITEMS 1. AND 2. BUSINESS AND PROPERTIES

Comstock Resources, Inc. together with its subsidiaries (the "Company" or "Comstock") is an independent energy company engaged in the acquisition, development, production and exploration of oil and natural gas properties. The Company's oil and natural gas reserve base is entirely concentrated in the Gulf of Mexico, Southeast Texas and East Texas/North Louisiana regions. The Company's reserve base is 69% natural gas and 72% proved developed on a Bcfe basis as of December 31, 1999. The estimated proved oil and natural gas reserves are 374.9 Bcfe with an estimated Present Value of Proved Reserves of \$515.1 million as of December 31, 1999 and the Company operates 72% of the Present Value of Proved Reserves of its properties. For the year ended December 31, 1999, the Company's total revenues and EBITDA were \$92.1 million and \$66.0 million, respectively.

The Company's proved reserves at December 31, 1999 and its 1999 average daily production are summarized below:

	Reserves at December 31, 1999				1999 Daily Production			
	Oil (MMBbls)	Gas (Bcf)	Total (Bcfe)	% of Total	Net Oil (MBbls/d)	Net Gas (Mmcfe/d)	Total (MMcfe/d)	% of Total
Gulf of Mexico . . . . .	15.0	55.8	146.0	39.0%	4.4	14.9	41.1	40.9%
Southeast Texas . . . . .	3.7	94.2	116.6	31.1	1.2	26.1	33.6	33.5
East Texas/North Louisiana . . . . .	.8	107.7	111.8	29.8	0.2	24.1	25.2	25.1
Other . . . . .	—	.4	.5	.1	—	.3	.5	.5
<b>Total . . . . .</b>	<b>19.5</b>	<b>258.1</b>	<b>374.9</b>	<b>100.0%</b>	<b>5.8</b>	<b>65.4</b>	<b>100.4</b>	<b>100.0%</b>

#### Company Strengths

*Quality Properties.* Comstock's operations are located in three geographically concentrated areas, the Gulf of Mexico, Southeast Texas and East Texas/North Louisiana regions, which account for approximately 39%, 31% and 30% of its proved reserves, respectively. The Company has high price realizations relative to benchmark prices for natural gas and crude oil production. The Company also has favorable operating costs which gives it attractive cash margins. Finally, Comstock's properties have an average reserve life of approximately 10.2 years and have extensive development and exploration potential.

*High Price Realizations.* The majority of the Company's wells are located in areas which can access attractive natural gas and crude oil markets. In addition, the Company's natural gas production has a relatively high Btu content (approximately 1,100 Btu) and its crude oil production has a favorable API gravity (approximately 40 degrees). Due to these factors, Comstock has relatively high price realizations compared to benchmark prices. In 1999 the Company's average natural gas price, before considering hedging activity, was \$2.46 per Mcf, which represented a \$0.17 premium to the average 1999 NYMEX monthly settlement price. Also in 1999, the Company's average crude oil price was \$17.35 per barrel, which represented a \$0.79 per barrel premium to the average 1999 monthly West Texas intermediate crude oil price posted by Koch Industries, Inc.

*Efficient Operator.* Comstock operates 72% of its Present Value of Proved Reserves as of December 31, 1999. This allows the Company to control operating costs, the timing and plans for future development, the level of drilling and lifting costs and the marketing of production. The Company's combined lease operating and general and administrative expenses per Mcfe of \$0.72 in 1999 was relatively low due to several factors. First, the Company has favorable production rates per well in its Gulf of Mexico and Southeast Texas wells



due to the geology of the regions. Second, in the East Texas/North Louisiana region, Comstock's production was 96% natural gas in 1999. Natural gas wells typically have lower costs per unit than oil producing wells. Finally, because the Company focuses on a few number of properties and has relatively low corporate overhead, its general and administrative expenses are generally lower than those of its peers.

*Favorable Cash Margins.* As a result of its quality properties, higher price realizations and efficient operations, Comstock has favorable cash margins. Consequently, the Company's oil and natural gas reserves have a higher value per Mcfe than reserves that generate lower cash margins.

*Successful Acquisitions.* The Company has historically grown through acquisitions. Since 1991, Comstock has added 488.9 Bcfe of proved oil and natural gas reserves from 22 acquisitions at an average cost of \$0.85 per Mcfe. The Company's application of strict economic and reserve risk criteria enables it to successfully evaluate and integrate acquisitions.

*Successful Exploration and Development Program.* In 1999, Comstock continued to focus on the exploitation and development of its properties through development drilling, recompletions and workovers with expenditures of \$20.5 million. Overall, the Company drilled 17 development wells (10.0 net) with an 88% success rate. The Company also had a successful exploratory drilling program in 1999, spending a total of \$8.1 million to drill 11 wells (2.4 net) with a 64% success rate. All of the Company's exploration activities were focused in its Gulf of Mexico region in 1999.

## **Business Strategy**

*Exploit Existing Reserves.* Comstock seeks to maximize the value of its properties by increasing production and recoverable reserves through active workover, recompletion and exploitation activities. The Company utilizes advanced industry technology, including 3-D seismic data, improved logging tools, and formation stimulation techniques. During 1999, the Company spent approximately \$11.5 million to drill 17 development wells (10.0 net), of which 15 wells (9.2 net) were successful, representing a success rate of 88%. In addition, the Company spent approximately \$4.5 million for recompletion and workover activity during 1999 and \$4.5 million for new production facilities. For 2000, the Company has budgeted \$40.0 million for development drilling and for workover and recompletion activity.

*Pursue Exploration Opportunities.* Comstock conducts exploration activities to find additional reserves on its undeveloped acreage and in its core operating areas. In 1999, the Company spent approximately \$8.1 million to drill 11 exploratory wells (2.4 net), of which seven (1.5 net) were successful, representing a success rate of 64%. The Company has budgeted \$20.0 million in 2000 for exploration activities which will be focused in its Southeast Texas and Gulf of Mexico regions.

*Maintain Low Cost Structure.* The Company seeks to increase cash flow by carefully controlling operating costs and general and administrative expenses. Comstock targets acquisitions that possess, among other characteristics, low per unit operating costs. Comstock's average oil and gas operating costs per Mcfe were \$0.65 in 1999. In addition, the Company has been able to grow its reserves and production substantially over the past five years with minimal increase to general and administrative expenses. As a result, general and administrative expenses per Mcfe have decreased from \$0.11 in 1995 to \$0.07 in 1999.

*Acquire High Quality Properties at Attractive Costs.* Comstock has a successful track record of increasing its oil and natural gas reserves through opportunistic acquisitions. Since 1991, the Company has added 488.9 Bcfe of proved oil and natural gas reserves from 22 acquisitions at a total cost of \$416.4 million, or \$0.85 per Mcfe. The acquisitions were acquired at an average 63% of their Present Value of Proved Reserves in the year the acquisitions were completed. The Company applies strict economic and reserve risk criteria in evaluating acquisitions. The Company targets properties in its core operating areas with established

production and low operating costs that also have potential opportunities to increase production and reserves through exploration and exploitation activities.

*Maintain Flexible Capital Expenditure Budget.* The timing of most of the Company's capital expenditures is discretionary with no material long-term capital expenditure commitments. Consequently, the Company has a significant degree of flexibility to adjust the level of such expenditures according to market conditions. Comstock anticipates spending approximately \$60.0 million on development and exploration projects in 2000. The Company intends to use operating cash flow to fund its drilling expenditures in 2000 and to utilize any excess cash flow to reduce amounts outstanding under the bank credit facility or to make oil and gas property acquisitions. Comstock may also make property acquisitions in 2000 that would require additional sources of funding, which may include borrowings under its bank credit facility or sales of equity or debt securities.

### Primary Operating Areas

The Company's activities are concentrated in three primary operating areas: Gulf of Mexico, Southeast Texas and East Texas/North Louisiana. The following table summarizes the Company's estimated proved oil and natural gas reserves by field as of December 31, 1999.

	<u>Net Oil</u> <u>(MBbls)</u>	<u>Net Gas</u> <u>(MMcf)</u>	<u>MMcfe</u>	<u>Present Value of</u> <u>Proved Reserves</u>	<u>Percentage</u>
			(In thousands)		
<b>Gulf of Mexico</b>					
Ship Shoal . . . . .	7,844	23,479	70,541	\$ 139,387	
Main Pass . . . . .	3,473	5,162	26,001	49,936	
South Timbalier/ South Pelto . .	2,077	6,794	19,257	41,839	
Bay Marchand . . . . .	545	3,263	6,533	9,630	
East White Point . . . . .	838	3,423	8,450	7,451	
West Cameron . . . . .	-	5,252	5,252	6,338	
El Campo . . . . .	185	2,842	3,954	3,916	
Eugene Island . . . . .	-	2,658	2,658	3,692	
Other . . . . .	72	2,880	3,310	3,824	
	<u>15,034</u>	<u>55,753</u>	<u>145,956</u>	<u>266,013</u>	51.6%
<b>Southeast Texas</b>					
Double A Wells . . . . .	3,660	92,345	114,303	146,478	
Redmond Creek . . . . .	84	1,813	2,316	2,781	
	<u>3,744</u>	<u>94,158</u>	<u>116,619</u>	<u>149,259</u>	29.0%
<b>East Texas/ North Louisiana</b>					
Beckville . . . . .	115	30,024	30,715	27,201	
Logansport . . . . .	42	18,357	18,608	16,584	
Waskom . . . . .	219	13,647	14,962	9,361	
Hico-Knowles . . . . .	38	4,798	5,023	7,191	
Box Church . . . . .	1	9,297	9,304	7,116	
Blocker . . . . .	40	9,841	10,083	6,704	
Lisbon . . . . .	54	4,345	4,666	6,135	
Longwood . . . . .	68	5,125	5,535	4,810	
Ada . . . . .	4	3,297	3,319	4,519	
Sugar Creek . . . . .	50	2,389	2,688	3,674	
Other . . . . .	41	6,658	6,909	5,910	
	<u>672</u>	<u>107,778</u>	<u>111,812</u>	<u>99,205</u>	19.3%
<b>Other Areas</b> . . . . .	<u>17</u>	<u>432</u>	<u>535</u>	<u>582</u>	.1%
<b>Total</b> . . . . .	<u>19,467</u>	<u>258,121</u>	<u>374,922</u>	<u>\$ 515,059</u>	<u>100.0%</u>

## **Gulf of Mexico**

The Company's largest operating region includes properties located offshore of Louisiana in state and federal waters of the Gulf of Mexico and in fields along the Texas and Louisiana Gulf Coast. The Company owns interests in 114 producing wells (53.7 net) in 13 field areas, the largest of which are the Ship Shoal area (Ship Shoal Blocks 66, 67, 68, 69 and South Pelto Block 1), the Main Pass area (Main Pass Blocks 21, 25 and 41), Bay Marchand Blocks 4 and 5 and the South Timbalier/South Pelto area (South Timbalier Blocks 11, 16, 34, 50 and South Pelto Blocks 5 and 15). The Company has 146.0 Bcfe of oil and natural gas reserves in the Gulf of Mexico region with a Present Value of Proved Reserves of \$266.0 million as of December 31, 1999. The Company operates 34 of the wells (32.9 net) that it owns in this region. Production from the region averaged 14.9 MMcf of natural gas per day and 4,358 barrels of oil per day during 1999. The Company spent \$11.8 million in this region in 1999 drilling three development wells (1.6 net) and drilling 11 exploratory wells (2.4 net). Comstock also spent \$4.4 million to install production facilities and \$1.8 million for recompletions and workovers in the Gulf of Mexico region in 1999. In 2000, the Company plans to spend \$27.0 million for development and exploration activities in this region.

### *Ship Shoal*

The Ship Shoal area is located in Louisiana state waters and in federal waters, offshore of Terrebonne Parish and near the state/federal waters boundary. The Company owns a 99% to 100% working interest and operates these properties except for its properties in Ship Shoal Block 69 in which Comstock has a 25% working interest. In the Ship Shoal area, oil and natural gas are produced from numerous Miocene sands occurring at depths from 5,800 to 13,500 feet, and in water depths from 10 to 40 feet. The Company's Ship Shoal area has estimated proved reserves of 70.5 Bcfe (19% of total proved reserves) with a Present Value of Proved Reserves of \$139.4 million as of December 31, 1999. The Company owns interests in 36 wells in the Ship Shoal area which averaged 9.1 MMcf of natural gas per day and 3,509 barrels of oil per day during 1999. In 1999 the Company drilled one successful development well (1.0 net) in the Ship Shoal area and plans to spend \$5.4 million to drill four development wells (1.2 net) in 2000.

### *Main Pass*

Main Pass Blocks 21 and 25 are located in Louisiana state waters, offshore of Plaquemines Parish in water with a depth of approximately 12 feet. The Company's wells in this area produce from multiple Miocene sands at depths that range from 4,400 to 7,700 feet. The Company is the operator and owns interests in 11 wells at Main Pass Block 21 and 25. The average production attributable to the Company's interest was approximately .6 Mmcf of natural gas and 564 barrels of oil per day. The Company purchased a non-operated working interest of 8.2% in eight wells in November 1999 at Main Pass Block 41. Main Pass Block 41 is located offshore Louisiana in Federal waters with an average depth of 50 feet. The wells produced at an average net rate of 4.3 Mmcf net to the Company's interest during November and December of 1999 from completions in various Miocene sands ranging in depth from 3,850 to 9,200 feet. Proved reserves for the total Main Pass area were 26.0 Bcfe (7% of total reserves at December 31, 1999). Comstock drilled two wells (.7 net) at Main Pass 41 in 1999 and has budgeted \$4.8 million to drill six wells (2.3 net) in the Main Pass area in 2000.

### *South Timbalier/South Pelto*

The Company owns working interests ranging from 25% to 33% in Louisiana state waters and in federal waters in the South Timbalier/South Pelto area located offshore of Terrebonne and Lafourche Parishes in water depths ranging from 20 to 60 feet. Oil and natural gas are produced from numerous sands of Pliocene to Upper Miocene age, at depths ranging from 2,000 to 12,000 feet. The Company has drilled four successful wells in the area and also acquired a 33% working interest in seven producing wells as well as production

facilities in this area in 1998. The Company has estimated proved net reserves totaling 19.3 Bcfe (5% of total proved reserves) in this area as of December 31, 1999. In 2000, the Company plans to spend approximately \$7.0 million to drill ten exploratory wells (2.7 net) in the South Timbalier/South Pelto area.

#### *Bay Marchand*

The Company owns a 22.5% working interest in Louisiana state leases in the Bay Marchand area, located offshore of Lafourche Parish in 12 feet of water. The Company has drilled four successful wells and has estimated proved net reserves totaling 6.5 Bcfe (2% of total proved reserves) at Bay Marchand as of December 31, 1999. The properties are located on the west flank of the Bay Marchand salt dome in a highly prolific oil and natural gas producing region. Producing zones in this area are Upper to Middle Miocene in age, highly porous and permeable and occur at depths ranging from 9,000 to 14,500 feet.

#### **Southeast Texas**

Approximately 31% (116.6 Bcfe) of the Company's proved reserves are located in Southeast Texas where the Company owns interests in 35 producing wells (13.9 net) and operates 26 (11.3 net) of these wells. Reserves in Southeast Texas represent 29% of the Company's Present Value of Proved Reserves as of December 31, 1999. Net daily production rates from the area averaged 26.1 MMcf of natural gas and 1,244 barrels of oil during 1999.

#### *Double A Wells*

Substantially all of the reserves in this region are in the Double A Wells field area in Polk County, Texas. The Double A Wells field is the Company's largest field area with total estimated proved reserves of 114.3 Bcfe (31% of total proved reserves) which have a Present Value of Proved Reserves of \$146.5 million as of December 31, 1999. The Company acquired interests in the Double A Wells field in May 1996. Net daily production from the 31 producing wells at Double A Well field averaged 1,183 barrels of oil and 25.4 MMcf of natural gas during 1999. These wells typically produce from the Woodbine formation at an average depth of 14,300 feet. During 1999, the Company began a redevelopment program in this field based on the interpretation of 3-D seismic data acquired on 25,600 acres. In 1999, Comstock drilled five development wells (3.0 net) in this field. Four of the wells (2.2 net) were successful. The Company has budgeted \$24.0 million to drill 13 development and exploratory wells (8.1 net) in the Double A Wells field in 2000 to continue the successful program started in 1999.

#### **East Texas/North Louisiana**

Approximately 30% (111.8 Bcfe) of the Company's proved reserves are located in East Texas and North Louisiana where the Company owns interests in 350 producing wells (196.6 net) in 21 field areas and operates 242 of these wells (175.3 net). The largest of the Company's field areas in this region are the Beckville, Logansport, Waskom, Hico-Knowles and Box Church fields. Reserves in the region represented 19% of the Company's Present Value of Proved Reserves as of December 31, 1999. Production from this region averaged 24.1 MMcf of natural gas per day and 192 barrels of oil per day during 1999. Most of the reserves in this area produce from the Cretaceous aged Travis Peak/Hosston formation and the Jurassic aged Cotton Valley formation. The total thickness of these formations range from 2,000 to 4,000 feet of sand and shale sequences in the East Texas Basin and the North Louisiana Salt Basin, at depths ranging from 6,000 to 10,500 feet. In 1999 the Company spent \$3.1 million drilling nine wells (5.5 net) and \$1.9 million on workovers and recompletions in this region. Comstock has budgeted approximately \$9.0 million in 2000 for this region to drill 12 development wells (7.4 net) and for recompletions.

### *Beckville*

The Company's properties in the Beckville field, located in Panola County, Texas, represented approximately 8% (30.7 Bcfe) of the Company's proved reserves as of December 31, 1999. The Company operates 54 wells in this field and owns interests in five additional wells. During 1999, the production attributable to the Company's interest from this field averaged 4.8 MMcf of natural gas and 21 barrels of oil per day. The Beckville field produces from the Cotton Valley formation at depths ranging from 9,000 to 10,000 feet. The Company drilled two wells (1.5 net) in 1999 at Beckville and plans to spend approximately \$2.6 million to drill four development wells (2.7 net) in this field in 2000.

### *Logansport*

The Logansport field produces from multiple pay zones in the Hosston formation at an average depth of 8,000 feet and is located in DeSoto Parish, Louisiana. The Company's proved reserves of 18.6 Bcfe in the Logansport field represented approximately 5% of the Company's proved reserves as of December 31, 1999. The Company operates 54 wells in this field and owns interests in 32 additional wells. During 1999, net daily production attributable to the Company's interest averaged 5.7 MMcf of natural gas and 20 barrels of oil. The Company drilled one well (.2 net) during 1999 and has budgeted \$0.8 million to drill one development well (.9 net) in this field in 2000.

### *Waskom*

The Waskom field, located in Harrison and Panola Counties in Texas, represented approximately 4% (15.0 Bcfe) of the Company's proved reserves as of December 31, 1999. The Company operates 40 wells in this field and owns interests in 31 additional wells. During 1999, net daily production attributable to the Company's interest averaged 2.0 MMcf of natural gas and 28 barrels of oil. The Waskom field produces from the Cotton Valley formation at depths ranging from 9,000 to 10,000 feet.

### *Hico-Knowles*

The Hico-Knowles field produces from multiple pay zones in the Hosston formation at an average depth of 7,100 feet and is located in Lincoln Parish, Louisiana. The Company's proved reserves of 5.0 Bcfe in the Hico-Knowles field represented approximately 1% of the Company's proved reserves as of December 31, 1999. The Company operates nine wells in this field and owns interests in six additional wells. During 1999, net daily production attributable to the Company's interest averaged 1.1 MMcf of natural gas and 12 barrels of oil. The Company drilled four wells (2.5 net) in this field during 1999 and has budgeted \$0.2 million to drill one development well (.5 net) in this field in 2000.

### *Box Church*

The Company's properties in the Box Church field, located in Limestone County, Texas, represented approximately 3% (9.3 Bcfe) of the Company's proved reserves as of December 31, 1999. The Company operates eight wells in this field. During 1999, net daily production attributable to the Company's interest from this field averaged 1.9 MMcf of natural gas and 4 barrels of oil. The Box Church field produces from the Cotton Valley formation at depths ranging from 10,200 to 10,500 feet. The Company drilled one well (.9 net) at Box Church in 1999 and plans to spend approximately \$1.7 million to drill two development wells (1.8 net) in this field in 2000.



## Acquisition Activities

### *Acquisition Strategy*

The Company has concentrated its acquisition activity in the Gulf of Mexico, Southeast Texas and East Texas/North Louisiana regions. Using a strategy that capitalizes on management's knowledge of and experience in these regions, the Company seeks to selectively pursue acquisition opportunities where the Company can evaluate the assets to be acquired in detail prior to completion of the transaction. The Company evaluates a large number of prospective properties according to certain internal criteria, including established production and the properties' future development and exploration potential, low operating costs and the ability for the Company to obtain operating control.

### *Major Property Acquisitions*

As a result of its acquisitions, the Company has added 488.9 Bcfe of proved oil and natural gas reserves since 1991.

The Company's largest acquisitions are the following:

***Bois d' Arc Acquisition.*** In December 1997, the Company acquired working interests in certain producing offshore Louisiana oil and gas properties as well as interests in undeveloped offshore oil and natural gas leases for approximately \$200.9 million from Bois d' Arc Resources and certain of its affiliates and working interest partners. The Company acquired interests in 43 wells (29.6 net) and eight separate production complexes located in the Gulf of Mexico offshore of Plaquemines and Terrebonne Parishes, Louisiana. The acquisition included interests in the Louisiana state and federal offshore areas of Main Pass Blocks 21 and 25, Ship Shoal Blocks 66, 67, 68 and 69 and South Pelto Block 1. The net proved reserves acquired were estimated at 14.3 MMBbls of oil and 29.4 Bcf of natural gas.

***Black Stone Acquisition.*** In May 1996, the Company acquired 100% of the capital stock of Black Stone Oil Company and interests in producing and undeveloped oil and gas properties located in Southeast Texas for \$100.4 million. The Company acquired interests in 19 wells (7.7 net) that are located in the Double A Wells field in Polk County, Texas and became the operator of most of the wells in the field. The net proved reserves acquired were estimated at 5.9 MMBbls of oil and 100.4 Bcf of natural gas.

***Sonat Acquisition.*** In July 1995, the Company purchased interests in certain producing oil and gas properties located in East Texas and North Louisiana from Sonat Inc. for \$48.1 million. The Company acquired interests in 319 producing wells (188.0 net). The acquisition included interests in the Beckville, Logansport, Waskom, and Hico-Knowles fields. The net proved reserves acquired were estimated at 0.8 MMBbls of oil and 104.7 Bcf of natural gas.

## Oil and Natural Gas Reserves

The following table sets forth the estimated proved oil and natural gas reserves of the Company and the Present Value of Proved Reserves as of December 31, 1999:

	<b>Oil (MBbls)</b>	<b>Gas (Mmcf)</b>	<b>Total (Mmcf)</b>	<b>Present Value of Proved Reserves (000's)</b>
Proved Developed Producing .....	9,013	134,164	188,242	\$ 280,695
Proved Developed Non-producing .....	5,366	49,960	82,153	114,185
Proved Undeveloped .....	<u>5,088</u>	<u>73,997</u>	<u>104,527</u>	<u>120,179</u>
Total Proved .....	<u>19,467</u>	<u>258,121</u>	<u>374,922</u>	<u>\$ 515,059</u>

There are numerous uncertainties inherent in estimating oil and natural gas reserves and their values, including many factors beyond the control of the producer. The reserve data set forth above represents estimates only. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, estimates of different engineers may vary. In addition, estimates of reserves are subject to revision based on the results of drilling, testing and production subsequent to the date of such estimate. Accordingly, reserve estimates are often different from the quantities of oil and gas reserves that are ultimately recovered.

In general, the volume of production from oil and natural gas properties declines as reserves are depleted. Except to the extent the Company acquires properties containing proved reserves or conducts successful exploration and development activities, the proved reserves of the Company will decline as reserves are produced. The Company's future oil and natural gas production is, therefore, highly dependent upon its level of success in acquiring or finding additional reserves.

The market price for the Company's oil production on December 31, 1999, after basis adjustments, was \$24.56 per barrel as compared to \$10.55 per barrel on December 31, 1998. The market price received for the Company's natural gas production on December 31, 1999, after basis adjustments, was \$2.51 per Mcf as compared to \$2.21 per Mcf on December 31, 1998.

## Drilling Activity Summary

During the three-year period ended December 31, 1999, the Company drilled development and exploratory wells as set forth in the table below.

	Year Ended December 31,					
	1997		1998		1999	
	Gross	Net	Gross	Net	Gross	Net
Development Wells:						
Oil .....	2	.6	—	—	1	.4
Gas .....	31	16.1	25	14.7	14	8.8
Dry .....	7	2.3	5	3.5	2	.8
	<u>40</u>	<u>19.0</u>	<u>30</u>	<u>18.2</u>	<u>17</u>	<u>10.0</u>
Exploratory Wells:						
Oil .....	1	.3	6	2.3	2	.6
Gas .....	4	1.3	2	2.0	5	.9
Dry .....	4	1.6	6	2.9	4	.9
	<u>9</u>	<u>3.2</u>	<u>14</u>	<u>7.2</u>	<u>11</u>	<u>2.4</u>
Total Wells .....	<u>49</u>	<u>22.2</u>	<u>44</u>	<u>25.4</u>	<u>28</u>	<u>12.4</u>

In January and February 2000, the Company has drilled seven development wells (2.6 net), all of which were successful and one successful exploratory well (0.3 net). As of February 28, 2000, the Company was in the process of drilling one exploratory well (1.0 net) and one development well (0.4 net).

## Producing Well Summary

The following table sets forth the gross and net producing oil and natural gas wells in which the Company owned an interest at December 31, 1999.

	Oil		Gas	
	Gross	Net	Gross	Net
Texas .....	32	16.6	216	120.6
Louisiana .....	11	6.3	184	88.7
Offshore Gulf of Mexico .....	37	24.1	41	17.4
Mississippi .....	1	.1	1	.2
Total Wells .....	<u>81</u>	<u>47.1</u>	<u>442</u>	<u>226.9</u>

The Company operates 310 of the 523 producing wells presented in the above table.

## Acreage

The following table summarizes the Company's developed and undeveloped leasehold acreage at December 31, 1999. Excluded is acreage in which the Company's interest is limited to royalty or similar interests.

	<u>Developed</u>		<u>Undeveloped</u>	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
Texas .....	163,431	117,644	38,148	18,262
Louisiana .....	77,792	57,109	6,794	862
State and Federal Offshore ..	35,906	14,925	1,764	745
Mississippi .....	1,360	210	—	—
Total Wells .....	<u>278,489</u>	<u>189,888</u>	<u>46,706</u>	<u>19,869</u>

Title to the Company's oil and natural gas properties is subject to royalty, overriding royalty, carried and other similar interests and contractual arrangements customary in the oil and gas industry, liens incident to operating agreements and for current taxes not yet due and other minor encumbrances. All of the Company's oil and natural gas properties are pledged as collateral under the Company's bank credit facility. As is customary in the oil and gas industry, the Company is generally able to retain its ownership interest in undeveloped acreage by production of existing wells, by drilling activity which establishes commercial reserves sufficient to maintain the lease or by payment of delay rentals.

## Markets and Customers

The market for oil and natural gas produced by the Company depends on factors beyond its control, including the extent of domestic production and imports of oil and natural gas, the proximity and capacity of natural gas pipelines and other transportation facilities, demand for oil and natural gas, the marketing of competitive fuels and the effects of state and federal regulation. The oil and gas industry also competes with other industries in supplying the energy and fuel requirements of industrial, commercial and individual consumers.

Substantially all of the Company's natural gas production is sold either on the spot natural gas market on a month-to-month basis at prevailing spot market prices or under long-term contracts based on current spot market gas prices. A portion of the natural gas production from the Company's Double A Wells field is sold under a long-term contract to Houston Pipeline Company, a subsidiary of Enron Corporation ("HPL"). The agreement with HPL expires on October 31, 2000 with pricing based on a percentage of spot gas prices for natural gas delivered to the Houston Ship Channel. Total gas sales in 1999 to HPL accounted for approximately 20% of the Company's 1999 oil and gas sales.

All of the Company's oil production is sold at the well site at prices tied to the spot oil markets. The Company sells its oil production from the Ship Shoal and Main Pass offshore properties and, beginning on July 1, 1999, from its Double A Wells field to Gulfmark Energy, Inc. Sales to Gulfmark Energy, Inc. accounted for 33% of the Company's 1999 oil and gas sales.

## **Competition**

The oil and gas industry is highly competitive. Competitors include major oil companies, other independent energy companies, and individual producers and operators, many of which have financial resources, personnel and facilities substantially greater than those of the Company. The Company faces intense competition for the acquisition of oil and natural gas properties.

## **Regulation**

The Company's operations are regulated by certain federal and state agencies. In particular, oil and natural gas production and related operations are or have been subject to price controls, taxes and other laws relating to the oil and natural gas industry. The Company cannot predict how existing laws and regulations may be interpreted by enforcement agencies or court rulings, whether additional laws and regulations will be adopted, or the effect such changes may have on its business or financial condition.

Sales of natural gas by the Company are not regulated and are made at market prices. However, the Federal Energy Regulatory Commission ("FERC") regulates interstate and certain intrastate natural gas transportation rates and service conditions, which affect the marketing of natural gas produced by the Company, as well as the revenues received by the Company for sales of such production. Since the mid-1980s, FERC has issued a series of orders, culminating in Order Nos. 636, 636-A and 636-B ("Order 636"), that have significantly altered the marketing and transportation of natural gas. Order 636 mandated a fundamental restructuring of interstate pipeline sales and transportation service, including the unbundling by interstate pipelines of the sales, transportation, storage and other components of the city-gate sales services such pipelines previously performed. One of FERC's purposes in issuing the orders was to increase competition within all phases of the natural gas industry. Generally, Order 636 has eliminated or substantially reduced the interstate pipelines' traditional role as wholesalers of natural gas and has substantially increased competition and volatility in natural gas markets.

Sales of oil and natural gas liquids by the Company are not regulated and are made at market prices. The price the Company receives from the sale of these products is affected by the cost of transporting the products to market.

The Company's oil and natural gas exploration, production and related operations are subject to extensive rules and regulations promulgated by federal, state and local agencies. Failure to comply with such rules and regulations can result in substantial penalties. The regulatory burden on the oil and gas industry increases the Company's cost of doing business and affects its profitability. Because such rules and regulations are frequently amended or reinterpreted, the Company is unable to predict the future cost or impact of complying with such laws.

The states of Texas and Louisiana require permits for drilling operations, drilling bonds and the filing of reports concerning operations and impose other requirements relating to the exploration and production of oil and gas. These states also have statutes or regulations addressing conservation matters, including provisions for the unitization or pooling of oil and natural gas properties, the establishment of maximum rates of production from oil and gas wells and the regulation of spacing, plugging and abandonment of such wells. The statutes and regulations of certain states limit the rate at which oil and gas can be produced from the Company's properties.

The Company is required to comply with various federal and state regulations regarding plugging and abandonment of oil and natural gas wells. The Company provides reserves for the estimated costs of plugging and abandoning its wells, to the extent such costs exceed the estimated salvage value of the wells, on a unit of production basis.



## *Environmental*

Various federal, state and local laws and regulations governing the discharge of materials into the environment, or otherwise relating to the protection of the environment, health and safety, affect the Company's operations and costs. These laws and regulations sometimes require governmental authorization before conducting certain activities, limit or prohibit other activities because of protected areas or species, create the possibility of substantial liabilities for pollution related to Company operations or properties and provide penalties for noncompliance. In particular, the Company's drilling and production operations, its activities in connection with storage and transportation of crude oil and other liquid hydrocarbons and its use of facilities for treating, processing or otherwise handling hydrocarbons and related exploration and production wastes are subject to stringent environmental regulation. As with the industry in general, compliance with existing and anticipated regulations increases the Company's overall cost of business. While these regulations affect the Company's capital expenditures and earnings, the Company believes that such regulations do not affect its competitive position in the industry because its competitors are similarly affected by environmental regulatory programs. Environmental regulations have historically been subject to frequent change and, therefore, the Company cannot predict with certainty the future costs or other future impacts of environmental regulations on its future operations. A discharge of hydrocarbons or hazardous substances into the environment could subject the Company to substantial expense, including the cost to comply with applicable regulations that require a response to the discharge, such as containment or cleanup, claims by neighboring landowners or other third parties for personal injury, property damage or their response costs and penalties assessed, or other claims sought, by regulatory agencies for response cost or for natural resource damages.

The following are examples of some environmental laws that potentially impact the Company and its operations.

**Water.** The Oil Pollution Act ("OPA") was enacted in 1990 and amends provisions of the Federal Water Pollution Control Act of 1972 ("FWPCA") and other statutes as they pertain to the prevention of and response to major oil spills. The OPA subjects owners of facilities to strict, joint and potentially unlimited liability for removal costs and certain other consequences of an oil spill along shorelines or that enters navigable waters. In the event of an oil spill into such waters, substantial liabilities could be imposed upon the Company. Recent regulations developed under OPA require companies that own offshore facilities, including the Company, to demonstrate oil spill financial responsibility for removal costs and damage caused by oil discharge. States in which the Company operates have also enacted similar laws. Regulations are currently being developed under the OPA and similar state laws that may also impose additional regulatory burdens on the Company.

The FWPCA imposes restrictions and strict controls regarding the discharge of produced waters, other oil and gas wastes, any form of pollutant, and, in some instances, storm water runoff, into waters of the United States. The FWPCA provides for civil, criminal and administrative penalties for any unauthorized discharges and, along with the OPA, imposes substantial potential liability for the costs of removal, remediation or damages resulting from an unauthorized discharge. State laws for the control of water pollution also provide civil, criminal and administrative penalties and liabilities in the case of an unauthorized discharge into state waters. The cost of compliance with the OPA and the FWPCA have not historically been material to the Company's operations, but there can be no assurance that changes in federal, state or local water pollution control programs will not materially adversely affect the Company in the future. Although no assurances can be given, the Company believes that compliance with existing permits and compliance with foreseeable new permit requirements will not have a material adverse effect on the Company's financial condition or results of operations.

**Air Emissions.** The Federal Clean Air Act and comparable state programs (the "Clean Air Act") requires many industrial operations in the United States to incur capital expenditures in order to meet air emissions control standards developed by the United States Environmental Protection Agency ("EPA") and state environmental agencies. Although no assurances can be given, the Company believes that compliance with the Clean Air Act will not have a material adverse effect on the Company's financial condition or results of operations.

**Solid Waste.** The Company generates non-hazardous solid wastes that are subject to the requirements of the Federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes. The EPA and the states in which the Company operates are considering the adoption of stricter disposal standards for the type of non-hazardous wastes generated by the Company. RCRA also governs the generation, management, and disposal of hazardous wastes. At present, the Company is not required to comply with a substantial portion of the RCRA requirements because the Company's operations generate minimal quantities of hazardous wastes. However, it is possible that additional wastes, which could include wastes currently generated during the Company's operations, could in the future be designated as "hazardous wastes." Hazardous wastes are subject to more rigorous and costly disposal and management requirements than are non-hazardous wastes. Such changes in the regulations may result in additional capital expenditures or operating expenses by the Company.

**Superfund.** The Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), also known as "Superfund", imposes liability, without regard to fault or the legality of the original act, on certain classes of persons in connection with the release of a "hazardous substance" into the environment. These persons include the current owner or operator of any site where a release historically occurred and companies that disposed or arranged for the disposal of the hazardous substances found at the site. CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. In the course of its ordinary operations, the Company may have managed substances that may fall within CERCLA's definition of a "hazardous substance." Therefore, the Company may be jointly and severally liable under CERCLA for all or part of the costs required to clean up sites where the Company disposed of or arranged for the disposal of these substances. This potential liability extends to properties that the Company previously owned or operated, as well as to properties owned and operated by others at which disposal of the Company's hazardous substances occurred.

The Company may also fall into the category of the "current owner or operator." The Company currently owns or leases numerous properties that for many years have been used for the exploration and production of oil and gas. Although the Company believes it has utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released by the Company on or under the properties owned or leased by the Company. In addition, many of these properties have been previously owned or operated by third parties who may have disposed of or released hydrocarbons or other wastes at these properties. Under CERCLA and analogous state laws, the Company could be subject to certain liabilities and obligations, such as being required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater) or to perform remedial plugging operations to prevent future contamination.

### **Office and Operations Facilities**

The Company's executive offices are located at 5300 Town and Country Blvd., Suite 500, Frisco, Texas 75034 and its telephone number is (972) 668-8800.

The Company leases office space in Frisco, Texas covering 20,046 square feet at a monthly rate of \$35,081. The lease expires on May 31, 2006. The Company also owns production offices and pipe yard facilities near Marshall and Livingston, Texas and near Logansport, Louisiana.

## Employees

As of December 31, 1999, the Company had 47 employees and utilized contract employees for certain of its field operations. The Company considers its employee relations to be satisfactory.

## Directors, Executive Officers and Other Management

The following table sets forth certain information concerning the executive officers and directors of the Company.

<u>Name</u>	<u>Age</u>	<u>Position with Company</u>
M. Jay Allison .....	44	President, Chief Executive Officer and Chairman of the Board of Directors
Roland O. Burns .....	39	Senior Vice President, Chief Financial Officer, Secretary, Treasurer and Director
Mack D. Good .....	49	Vice President of Operations
Stephen E. Neukom .....	50	Vice President of Marketing
Richard G. Powers .....	45	Vice President of Land
Daniel K. Presley .....	39	Vice President of Accounting and Controller
Michael W. Taylor .....	46	Vice President of Corporate Development
Richard S. Hickok .....	74	Director
Franklin B. Leonard .....	72	Director
Cecil E. Martin, Jr .....	58	Director
David W. Sledge .....	43	Director

### *Executive Officers*

**M. Jay Allison** has been a director of the Company since 1987, and President and Chief Executive Officer of the Company since 1988. Mr. Allison was elected Chairman of the Board of Directors in 1997. From 1987 to 1988, Mr. Allison served as Vice President and Secretary of the Company. From 1981 to 1987, he was a practicing oil and gas attorney with the firm of Lynch, Chappell & Alsup in Midland, Texas. In 1983, Mr. Allison co-founded a private independent oil and gas company, Midwood Petroleum, Inc., which was active in the acquisition and development of oil and gas properties from 1983 to 1987. He received B.B.A., M.S. and J.D. degrees from Baylor University in 1978, 1980 and 1981, respectively. Mr. Allison currently serves on the Board of Regents for Baylor University.

**Roland O. Burns** has been Senior Vice President of the Company since 1994, Chief Financial Officer and Treasurer since 1990 and Secretary since 1991. Mr. Burns was elected as a director of the Company in June 1999. From 1982 to 1990, Mr. Burns was employed by the public accounting firm, Arthur Andersen LLP. During his tenure with Arthur Andersen LLP, Mr. Burns worked primarily in the firm's oil and gas audit practice. Mr. Burns received B.A. and M.A. degrees from the University of Mississippi in 1982 and is a Certified Public Accountant.

**Mack D. Good** was appointed Vice President of Operations of the Company in March 1999. From August 1997 until his promotion, Mr. Good served as the Company's District Engineer for the East Texas/North Louisiana region. From 1983 until 1997, Mr. Good was with Enserch Exploration, Inc. serving in various operations management and engineering positions. Mr. Good received a B.S. of Biology/Chemistry from Oklahoma State University in 1975 and a B.S. of Petroleum Engineering from the University of Tulsa in 1983. He is a Registered Professional Engineer in the State of Texas.

**Stephen E. Neukom** has been Vice President of Marketing of the Company since December 1997 and has served as Manager of Crude Oil and Natural Gas Marketing since December 1996. From October 1994 to 1996, Mr. Neukom served as Vice President of Comstock Natural Gas, Inc., the Company's wholly owned gas marketing subsidiary. Prior to joining the Company, Mr. Neukom was Senior Vice President of Victoria Gas Corporation from 1987 to 1994. Mr. Neukom received a B.B.A. degree from the University of Texas in 1972.

**Richard G. Powers** joined the Company as Land Manager in October 1994 and has been Vice President of Land since December 1997. Mr. Powers has over 20 years experience as a petroleum landman. Prior to joining the Company, Mr. Powers was employed for 10 years as Land Manager for Bridge Oil (U.S.A.), Inc. and its predecessor Pinoak Petroleum, Inc. Mr. Powers received a B.B.A. degree in 1976 from Texas Christian University.

**Daniel K. Presley** has been Vice President of Accounting since December 1997 and has been with the Company since December 1989 serving as Controller since 1991. Prior to joining the Company, Mr. Presley had six years of experience with several independent oil and gas companies including AmBrit Energy, Inc. Prior thereto, Mr. Presley spent two and one-half years with B.D.O. Seidman, a public accounting firm. Mr. Presley has a B.B.A. from Texas A & M University.

**Michael W. Taylor** has been Vice President of Corporate Development since December 1997 and has served the Company in various capacities since September 1994. Mr. Taylor has 26 years experience in the oil and gas business. For 15 years prior to joining the Company, he had been an independent oil and gas producer and petroleum consultant. Before that time, he worked in various engineering and executive capacities for a major oil company, a small independent producer and an international oil and gas consulting company. Mr. Taylor is a registered professional engineer in the state of Texas and he received a B.S. degree in Petroleum Engineering from Texas A & M University in 1974.

#### ***Outside Directors***

**Richard S. Hickok** has been a director of the Company since 1987. From 1948 to 1983, he was employed by the international accounting firm of Main Hurdman where he retired as Chairman. From 1978 to 1980, Mr. Hickok served as a Trustee of the Financial Accounting Foundation and has extensive involvement serving on various committees of the American Institute of Certified Public Accountants. Mr. Hickok holds a B.S. degree from the Wharton School of the University of Pennsylvania.

**Franklin B. Leonard** has been a director of the Company since 1960. From 1961 to 1994, Mr. Leonard served as President of Crossley Surveys, Inc., a New York based company which conducted statistical surveys. Mr. Leonard's family's involvement in the Company spans four generations dating back to the 1880's when Mr. Leonard's great grandfather was a significant shareholder of the Company. Mr. Leonard holds a B.S. degree from Yale University.

*Cecil E. Martin, Jr.* has been a director of the Company since 1988. From 1973 to 1991 he served as Chairman of a public accounting firm in Richmond, Virginia. Mr. Martin also serves as a director for CareerShop.com. Mr. Martin holds a B.B.A. degree from Old Dominion University and is a Certified Public Accountant.

*David W. Sledge* was elected to the Board of Directors of the Company in 1996. Mr. Sledge served as President of Gene Sledge Drilling Corporation, a privately held contract drilling company based in Midland, Texas until its sale in October 1996. Mr. Sledge served Gene Sledge Drilling Corporation in various capacities from 1979 to 1996. Mr. Sledge is a past director of the International Association of Drilling Contractors and is a past chairman of the Permian Basin chapter of this association. He received a B.B.A. degree from Baylor University in 1979.

### **ITEM 3. LEGAL PROCEEDINGS**

The Company is not a party to any legal proceedings which management believes will have a material adverse effect on the Company's consolidated results of operations or financial condition.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of the Company's security holders during the fourth quarter of 1999.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is listed for trading on the New York Stock Exchange under the symbol "CRK". The following table sets forth, on a per share basis for the periods indicated, the high and low sales prices by calendar quarter for the periods indicated as reported by the New York Stock Exchange.

		<u>High</u>	<u>Low</u>
1998 –	First Quarter .....	\$ 12.00	\$ 8.75
	Second Quarter .....	13.50	7.31
	Third Quarter .....	8.13	5.25
	Fourth Quarter .....	6.13	2.81
1999 –	First Quarter .....	\$ 3.88	\$ 2.19
	Second Quarter .....	5.13	2.44
	Third Quarter .....	5.88	3.38
	Fourth Quarter .....	4.50	2.63

As of February 28, 2000, the Company had 25,375,197 shares of common stock outstanding, which were held by 484 holders of record and approximately 8,000 beneficial owners who maintain their shares in "street name" accounts.

The Company has never paid cash dividends on its common stock. The Company presently intends to retain any earnings for the operation and expansion of its business and does not anticipate paying cash dividends in the foreseeable future. Any future determination as to the payment of dividends will depend upon results of operations, capital requirements, the financial condition of the Company and such other factors as the Board of Directors of the Company may deem relevant. In addition, the Company is limited under its bank credit facility, its 1999 Series A Preferred Stock Series and its indenture for its senior notes due in 2007 from paying or declaring cash dividends.



## ITEM 6. SELECTED FINANCIAL DATA

The historical financial data presented in the table below as of and for each of the years in the five-year period ended December 31, 1999 are derived from the Consolidated Financial Statements of the Company. Significant acquisitions of producing oil and gas properties affect the comparability of the financial and operating data for the periods presented. The financial results are not necessarily indicative of the Company's future operations or financial results. The data presented below should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto included elsewhere herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,				
	1995	1996	1997	1998	1999
(\$ in thousands, except per share data)					
<b>Statement of Operations Data:</b>					
Revenues:					
Oil and gas sales	\$ 22,091	\$ 68,915	\$ 88,555	\$ 92,961	\$ 90,103
Gain on sales of property	19	1,447	85	—	130
Other income	264	593	704	274	1,911
Total revenues	22,374	70,955	89,344	93,235	92,144
Expenses:					
Oil and gas operating (1)	7,427	13,838	17,919	24,747	23,714
Exploration	—	436	2,810	8,301	1,832
Depreciation, depletion and amortization	8,379	18,269	26,235	51,005	45,171
General and administrative, net	1,301	2,239	2,668	1,617	2,399
Interest	5,542	10,086	5,934	16,977	23,361
Impairment of oil and gas properties	29,150	—	—	17,000	—
Total expenses	51,799	44,868	55,566	119,647	96,477
Income (loss) from continuing operations					
before income taxes	(29,425)	26,087	33,778	(26,412)	(4,333)
Income tax benefit (expense)	—	—	(11,622)	9,244	1,517
Net income (loss) from continuing operations	(29,425)	26,087	22,156	(17,168)	(2,816)
Preferred stock dividends	(1,908)	(2,021)	(410)	—	(1,853)
Net income (loss) from continuing operations					
attributable to common stock	(31,333)	24,066	21,746	(17,168)	(4,669)
Income from discontinued operations	3,264	1,866	—	—	—
Net income (loss) attributable to common stock	\$ (28,069)	\$ 25,932	\$ 21,746	\$ (17,168)	\$ (4,669)
Weighted average shares outstanding:					
Basic	12,546	15,449	24,186	24,275	24,601
Diluted		21,199	26,008		
Basic earnings per share:					
Net income (loss) from continuing operations	\$ (2.50)	\$ 1.56	\$ 0.90	\$ (0.71)	\$ (0.19)
Net income (loss)	(2.24)	1.68	0.90	(0.71)	(0.19)
Diluted earnings per share:					
Net income (loss) from continuing operations		\$ 1.23	\$ 0.85		
Net income (loss)		1.32	0.85		
<b>Other Financial Data:</b>					
EBITDA(2)	\$ 13,646	\$ 54,878	\$ 68,757	\$ 66,871	\$ 66,031
Ratio of EBITDA to interest expense	2.5	5.4	11.3	3.5	2.8

	As of December 31,				
	1995	1996	1997	1998	1999
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 1,917	\$ 16,162	\$ 14,504	\$ 5,176	\$ 7,648
Property and equipment, net	102,116	185,928	410,781	404,017	395,862
Total assets	120,099	222,002	456,800	429,672	434,973
Total debt	71,811	80,108	260,000	278,104	254,131
Stockholders' equity	30,128	118,216	124,594	109,663	137,174

(1) Includes lease operating costs and production and ad valorem taxes.

(2) EBITDA means income (loss) from continuing operations before income taxes, plus interest, depreciation, depletion and amortization, exploration expense and impairment of oil and gas properties. EBITDA is a financial measure commonly used in the Company's industry and should not be considered in isolation or as a substitute for net income, cash flow provided by operating activities or other income or cash flow data prepared in accordance with generally accepted accounting principles or as a measure of a company's profitability or liquidity.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Results of Operations

The following table reflects certain summary operating data for the periods presented:

	<u>Year Ended December 31,</u>		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>Net Production Data:</b>			
Oil (Mbbbls) .....	1,343	2,571	2,128
Natural gas (Mmcf) .....	22,860	26,713	23,872
Natural gas equivalent (Mmcfe) .....	30,919	42,141	36,642
<b>Average Sales Price:</b>			
Oil (Mbbbls) .....	\$ 19.47	\$ 12.73	\$ 17.35
Natural gas (Mmcf) .....	2.73	2.25	2.23
Average equivalent price (per Mcfe) .....	2.87	2.21	2.47
<b>Expenses (\$ per Mcfe):</b>			
Oil and gas operating(1) .....	\$ 0.58	\$ 0.59	\$ 0.65
General and administrative .....	0.09	0.04	0.07
Depreciation, depletion and amortization(2) .....	0.84	1.20	1.20
<b>Cash Margin (\$ per Mcfe)(3) .....</b>	<b>\$ 2.20</b>	<b>\$ 1.58</b>	<b>\$ 1.75</b>

(1) Includes lease operating costs and production and ad valorem taxes.

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

(3) Represents average equivalent price per Mcfe less oil and gas operating expenses per Mcfe and general and administrative expenses per Mcfe.

### *Year Ended December 31, 1999 Compared to Year Ended December 31, 1998*

The Company's oil and gas sales decreased \$2.9 million (3%) in 1999, to \$90.1 million from \$93.0 million in 1998 due to a decrease in oil and natural gas production largely offset by higher oil prices in 1999. In 1999, the Company's average oil price increased by 36% and its average gas price decreased by 1%. The Company hedged 39% of its 1999 natural gas production at a fixed price of \$2.03 per Mcf. Without the impact of the hedge, the Company would have realized \$2.43 per Mcf in 1999. In 1999, the Company's oil production decreased by 17% and natural gas production decreased by 11%. The production declines in 1999 were principally attributable to the significantly lower drilling activity in the first half of 1999. The Company significantly increased its drilling activity in the second half of 1999 and has continued to do so in 2000 and anticipates that oil and gas production will increase in 2000.

Other income for the year ended December 31, 1999 increased \$1.6 million to \$1.9 million from \$274,000 for the year ended December 31, 1998. Included in other income for 1999 is a \$1.7 million insurance recovery received by the Company on the Habenero prospect which was drilled in 1998 and was written off in 1998 when the well was abandoned due to encountering numerous well control problems.

Oil and gas operating expenses, including production taxes, decreased \$1.0 million (4%) to \$23.7 million in 1999 from \$24.7 million in 1998. Oil and gas operating expenses per equivalent Mcf produced increased \$0.06 to \$0.65 for the year ended December 31, 1999 from \$0.59 for the year ended 1998 due to the 13% decrease in oil and natural gas production (on an equivalent Mcf basis) and the fixed nature of most of the Company's lifting costs.

In 1999, the Company had \$1.8 million in exploration expense which represents the write off of four offshore exploratory dry holes (.9 net). Exploration expense for 1998 of \$8.3 million relates to the write off of the six dry holes (2.9 net) drilled in the Gulf of Mexico during 1998.

Depreciation, depletion and amortization ("DD&A") decreased \$5.8 million (11%) to \$45.2 million in 1999 from \$51.0 million in 1998 due to the 13% decrease in oil and natural gas production. DD&A per equivalent Mcf produced was \$1.20 for the year ended December 31, 1999 which remained unchanged from 1998's DD&A rate. Included in DD&A in 1999 is \$538,000 relating to the amortization of costs associated with the issuance of the Company's senior notes in April 1999.

General and administrative expenses, which are reported net of overhead reimbursements, increased \$782,000 (48%) to \$2.4 million in 1999 from \$1.6 million in 1998. The increase relates to a \$225,000 litigation settlement paid in 1999, a decrease in drilling overhead reimbursements received by the Company in 1999 due to the lower level of drilling in 1999 and higher personnel costs incurred in 1999.

Interest expense increased \$6.4 million (38%) to \$23.4 million for the year ended December 31, 1999 from \$17.0 million for the year ended December 31, 1998. The Company capitalized interest expense of \$2.3 million in 1998 on its unevaluated properties, while in 1999, no interest expense was capitalized. The remaining increase is related to a higher average interest rate on the Company's debt. The weighted average annual interest rate under the Company's bank credit facility was 7.2% for 1999, the same as the weighted average rate in 1998. The interest rate on the Company's senior notes issued to refinance \$150.0 million of amounts outstanding under the bank credit facility on April 29, 1999 (11.25%) was significantly higher than the 7.2% rate charged under the bank credit facility in 1998.

Due to the substantial drop in oil and gas prices during 1998, the Company provided an impairment of \$17.0 million in 1998 of its oil and gas properties. No impairment was required in 1999.

The Company had a deferred tax benefit of \$1.5 million for 1999, using an estimated tax rate of 35%.

The Company reported a net loss of \$4.7 million after preferred stock dividends of \$1.9 million for the year ended December 31, 1999, as compared to a net loss of \$17.2 million for year ended December 31, 1998. Net loss per share for 1999 was \$0.19 on weighted average shares outstanding of 24.6 million as compared to net loss per share of \$0.71 for 1998 on weighted average shares outstanding of 24.3 million.

#### ***Year Ended December 31, 1998 Compared to Year Ended December 31, 1997***

Oil and gas sales increased \$4.4 million (5%) to \$93.0 million in 1998 from \$88.6 million in 1997. The increase is attributable to a 17% increase in natural gas production and a 92% increase in oil production, offset by 18% lower realized natural gas prices and 35% lower realized oil prices. The increase in production is attributable to the \$200.9 million acquisition of offshore producing properties completed in December 1997.

Other income in 1998 decreased \$430,000 (61%) to \$274,000 from \$704,000 for 1997. This decrease is attributable to a lower level of short-term cash deposits outstanding as well as the termination of management fee income previously received by the Company.

Oil and gas operating costs in 1998 increased \$6.8 million (38%) to \$24.7 million from \$17.9 million in 1997 due to the 36% increase in oil and gas production (on an equivalent Mcf basis). Oil and gas operating expenses per equivalent Mcf produced increased \$0.01 to \$0.59 in 1998 from \$0.58 in 1997.

Exploration expense for 1998 was \$8.3 million which relates to the write-off of the six unsuccessful exploratory wells, as compared to \$2.8 million in 1997.

DD&A increased \$24.8 million (94%) to \$51.0 million from \$26.2 million in 1997. The increase is due to a 36% increase in oil and natural gas production and to higher costs per unit of amortization. DD&A per equivalent Mcf increased by \$0.36 to \$1.20 in 1998 from \$0.84 in 1997. The increases in the DD&A rate relate to the higher costs of the offshore properties acquired in late 1997.

General and administrative expenses, which are reported net of overhead reimbursements, decreased \$1.1 million (39%) to \$1.6 million in 1997. The decrease is attributable to an increase in overhead reimbursements received by the Company in 1998 which was greater than the increase in the Company's overhead costs before reimbursements.

Interest expense in 1998 increased \$11.0 million (186%) to \$17.0 million in 1998 from \$5.9 million in 1997. The increase is related to a higher level of outstanding advances under the Company's bank credit facility due to the \$200.9 million acquisition completed in December 1997 as well as a higher average interest rate on the Company's bank credit facility. The weighted average annual interest rate under the Company's bank credit facility increased to 7.2% in 1998 as compared to 6.6% in 1997. The increase in the rate was attributable to a higher utilization of the borrowing base under the bank credit facility after the December 1997 acquisition.

Due to the substantial drop in oil and gas prices during 1998, the Company provided an impairment of \$17.0 million in 1998 of its oil and gas properties.

The Company had a deferred tax benefit of \$9.2 million for 1998, using an estimated tax rate of 35%.

The net loss for the year ended December 31, 1998 was \$17.2 million, as compared to net income of \$21.7 million, in 1997. Net loss per share for 1998 was \$0.71 on weighted average shares outstanding of 24.3 million as compared to net income per share of \$0.85 for 1997 on diluted weighted average shares outstanding of 26.0 million.

## **Liquidity and Capital Resources**

Funding for the Company's activities has historically been provided by operating cash flow, debt and equity financings and asset dispositions. In 1999, the Company's net cash flow provided by operating activities totaled \$42.8 million before changes to other working capital accounts. On April 29, 1999, the Company completed the sale of \$150.0 million in aggregate principal amount of 11¼% Senior Notes due in 2007 (the "Notes"). Concurrently with the sale of the Notes, the Company also issued 3,000,000 shares of its preferred stock in a private placement for \$30.0 million. After transaction related costs, the sale of the Notes and the preferred stock generated proceeds of \$172.8 million. The other primary funding source in 1999 was borrowings under the Company's revolving bank credit facility of \$10.0 million.

The Company's primary needs for capital, in addition to funding of ongoing operations, relate to the acquisition, development and exploration of oil and gas properties and the repayment of debt. In 1999, the Company incurred capital expenditures of \$36.0 million primarily for development, exploration and acquisition activities and reduced amounts outstanding under its bank credit facility by \$184.0 million.

The Company's annual capital expenditure activity is summarized as follows:

	<b>Year Ended December 31,</b>		
	<b>1997</b>	<b>1998</b>	<b>1999</b>
Acquisitions of oil and gas properties .....	\$ 220,054	\$ 2,453	\$ 4,458
Other leasehold costs .....	2,304	3,622	2,258
Workovers and recompletions .....	2,517	10,198	4,472
Offshore production facilities .....	—	—	4,462
Development drilling .....	22,765	20,361	11,521
Exploratory drilling .....	6,043	30,423	8,126
Other .....	1,160	330	684
<b>Total .....</b>	<b>\$ 254,843</b>	<b>\$ 67,387</b>	<b>\$ 35,981</b>

The timing of most of the Company's capital expenditures is discretionary with no material long-term capital expenditure commitments. Consequently, the Company has a significant degree of flexibility to adjust the level of such expenditures as circumstances warrant. The Company spent \$33.6 million, \$64.6 million and \$30.8 million on development and exploration activities in 1997, 1998 and 1999, respectively. The Company currently anticipates spending approximately \$60.0 million on development and exploration projects in 2000. The Company intends to primarily use internally generated cash flow to fund capital expenditures other than significant acquisitions.

The Company spent \$220.1 million, \$2.5 million and \$4.5 million on acquisition activities in 1997, 1998 and 1999, respectively. The Company does not have a specific acquisition budget for 2000 as a result of the unpredictability of the timing and size of forthcoming acquisition activities. The Company intends to use borrowings under its bank credit facility, or other debt or equity financings to the extent available, to finance significant acquisitions. The availability and attractiveness of these sources of financing will depend upon a number of factors, some of which will relate to the financial condition and performance of the Company, and some of which will be beyond the Company's control, such as prevailing interest rates, oil and gas prices and other market conditions.

The Company has a bank credit facility consisting of a \$175.0 million revolving credit commitment provided by a syndicate of banks for which Bank One, NA serves as administrative agent. Indebtedness under the bank credit facility is secured by substantially all of the Company's assets and is subject to borrowing base availability which is generally redetermined semiannually based on the banks' estimates of the future net cash flows of the Company's oil and gas properties. The borrowing base under the bank credit facility is \$175.0 million. Such borrowing base may be affected from time to time by the performance of the Company's oil and gas properties and changes in oil and gas prices. The determination of the Company's borrowing base is at the sole discretion of the administrative agent and the bank group. The revolving credit line under the bank credit facility bears interest at the option of the Company, based on the utilization of the borrowing base, at either (i) LIBOR plus 1.25% to 2.0% or (ii) the "corporate base rate" plus 0.25% to 1.0%. The Company incurs a commitment fee, based on the utilization of the borrowing base, of 0.25% to 0.5% per annum on the unused portion of the borrowing base. The revolving credit line matures on December 9, 2002 or such earlier date as the Company may elect. The bank credit facility contains covenants which, among other things, restrict the payment of cash dividends, limit the amount of consolidated debt, and limit the Company's ability to make certain loans and investments. Significant financial covenants include the maintenance of a current ratio, as defined, (1.0 to 1.0), maintenance of tangible net worth (\$105.0 million), and maintenance of an interest coverage ratio (2.5 to 1.0).

The Company believes that cash flow from operations and available borrowings under the Company's bank credit facility will be sufficient to fund its operations and future growth as contemplated under its current business plan. However, if the Company's plans or assumptions change or if its assumptions prove to be

inaccurate, the Company may be required to seek additional capital. Management cannot be assured that the Company will be able to obtain such capital or, if such capital is available, that the Company will be able to obtain it on acceptable terms.

## **Federal Taxation**

At December 31, 1999, the Company had federal income tax net operating loss ("NOL") carryforwards of approximately \$42.8 million. The NOL carryforwards expire from 2009 through 2019. The value of these carryforwards depends on the ability of the Company to generate federal taxable income and to utilize the carryforwards to reduce such income.

## **Year 2000**

"Year 2000," or the ability of computer systems to process dates with years beyond 1999, affects almost all companies and organizations. Computer systems that were not Year 2000 compliant by January 1, 2000 may cause an adverse effect to companies and organizations that rely upon those systems. The Company assessed and corrected computer systems that were unable to properly process dates beyond 1999. The Company's significant financial information systems are outsourced and the Company is relying on assurances from the providers that they are Year 2000 compliant. The Company's costs related to Year 2000 have not been significant. The Company has not experienced any significant problems or delays related to Year 2000 subsequent to January 1, 2000. In addition, the Company does not expect any future material effects to arise from Year 2000.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS**

The Company's operations are impacted by fluctuations in crude oil and natural gas commodity prices and interest rates. The following discussion is intended to identify the nature of these market risks, describe the Company's strategy for managing such risks, and to quantify the potential affect of market volatility on the Company's financial condition and results of operations.

### **Oil and Natural Gas Prices**

The Company's financial condition, results of operation, and capital resources are highly dependent upon the prevailing market prices of, and demand for, oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond the control of the Company. These factors include the level of global demand for petroleum, foreign supply of oil and gas, the establishment of and compliance with production quotas by oil-exporting countries, weather conditions, the price and availability of alternative fuels, and overall economic conditions, both foreign and domestic. It is impossible to predict future oil and natural gas prices with any degree of certainty. Sustained weakness in oil and natural gas prices may adversely affect the Company's financial condition and results of operations, and may also reduce the amount of net oil and gas reserves that the Company can produce economically. Any reduction in oil and natural gas reserves, including reductions due to price fluctuations, can have an adverse affect on the Company's ability to obtain capital for its exploration and development activities. Similarly, any improvements in oil and natural gas prices can have a favorable impact on the Company's financial condition, results of operations and capital resources. Based on the Company's oil and natural gas production in 1999, before taking into account any hedging transactions, a \$1.00 change in the price per barrel of oil would result in a change in the Company's cash flow for such period of approximately \$2.0 million and a \$0.10 change in the price per Mcf of natural gas would result in a change in the Company's cash flow of approximately \$2.2 million.

The Company periodically has utilized hedging transactions with respect to a portion of its oil and natural gas production to mitigate its exposure to price fluctuations. While the use of these hedging arrangements



limits the downside risk of price declines, such use may also limit any benefits which may be derived from price increases. The Company has primarily used price swaps, whereby monthly settlements are based on differences between the prices specified in the instruments and the settlement prices of certain futures contracts quoted on the NYMEX or certain other indices. Generally, when the applicable settlement price is less than the price specified in the contract, the Company receives a settlement from the counterparty based on the difference. Similarly, when the applicable settlement price is higher than the specified price, the Company pays the counterparty based on the difference. In February 1999, the Company entered into natural gas price swaps covering 9.3 Bcf of its natural gas production for March 1999 to October 1999 at 1.2 Bcf per month at a fixed price of \$2.03 per Mcf (after basis adjustment). As a result of the natural gas price swaps in place, the Company realized a loss of \$4.9 million in 1999. As of December 31, 1999, the Company had no open derivative financial instruments held for price risk management.

### **Interest Rates**

At December 31, 1999, the Company had long-term debt of \$254.0 million, of this amount, \$150.0 million bears interest at a fixed rate of 11.25%. The remaining outstanding long-term debt of \$104.0 million is under the Company's bank credit facility which is subject to floating market rates of interest. Borrowings under the bank credit facility bear interest at a fluctuating rate that is linked to LIBOR or the corporate base rate, at the Company's option. Any increases in these interest rates can have an adverse impact on the Company's results of operations and cash flow. The Company has entered into interest rate swap agreements to hedge the impact of interest rate changes on a large portion of its floating rate debt. As of December 31, 1999, the Company has interest rate swaps with a notional amount of \$100.0 million which fixed the LIBOR rate at an average rate of 5.0% through September 2000. As a result of the interest rate swaps in place, the Company realized a gain of \$169,000 in 1999. The fair value of the Company's open interest rate swap contracts as of December 31, 1999 was an asset of \$860,000.

## **ITEM 8. FINANCIAL STATEMENTS**

The Consolidated Financial Statements for Comstock Resources, Inc. and Subsidiaries are included on pages F-1 to F-20 of this report.

The financial statements have been prepared by the management of the Company in conformity with generally accepted accounting principles. Management is responsible for the fairness and reliability of the financial statements and other financial data included in this report. In the preparation of the financial statements, it is necessary to make informed estimates and judgments based on currently available information on the effects of certain events and transactions.

The Company maintains accounting and other controls which management believes provide reasonable assurance that financial records are reliable, assets are safeguarded, and that transactions are properly recorded in accordance with management's authorizations. However, limitations exist in any system of internal control based upon the recognition that the cost of the system should not exceed benefits derived.

The Company's independent public accountants, Arthur Andersen LLP, are engaged to audit the financial statements of the Company and to express an opinion thereon. Their audit is conducted in accordance with generally accepted auditing standards to enable them to report whether the financial statements present fairly, in all material respects, the financial position and results of operations of the Company in accordance with generally accepted accounting principles.

The Audit Committee of the Board of Directors of the Company, composed of three directors who are not employees, meets periodically with the independent public accountants and management. The independent public accountants have full and free access to the Audit Committee to meet, with and without management being present, to discuss the results of their audits and the quality of financial reporting.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 1999.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 1999.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 1999.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 1999.

## PART IV

### ITEM 14. EXHIBITS AND REPORTS ON FORM 8-K

#### Exhibits:

The following exhibits are included on pages E-1 to E-54 of this report.

<b>Exhibit No.</b>	<b>Description</b>
3.1(a)	Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995).
3.1(b)	Certificate of Amendment to the Restated Articles of Incorporation dated July 1, 1997 (incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).
3.2	Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-3, dated October 25, 1996).
4.2(a)	Rights Agreement dated as of December 10, 1990, by and between the Company and Society National Bank, as Rights Agent (incorporated herein by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A, dated December 14, 1990).
4.2(b)	First Amendment to the Rights Agreement, by and between the Company and Society National Bank (successor to Ameritrust Texas, N.A.), as Rights Agent, dated January 7, 1994 (incorporated herein by reference to Exhibit 3.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993).
4.2(c)	Second Amendment to the Rights Agreement, by and between the Company and Bank One, Texas N.A. (successor to Society National Bank), as Rights Agent, dated April 1, 1995 (incorporated by reference to Exhibit 4.7 to the Company's Annual Report on Form 10-K for the ended December 31, 1995).
4.2(d)	Third Amendment to the Rights Agreement, by and between the Company and Bank One, Texas N.A. (successor to Society National Bank), as Rights Agent, dated April 1, 1995 (incorporated by reference to Exhibit 4.8 to the Company's Annual Report on Form 10-K for the ended December 31, 1995).
4.2(e)	Fourth Amendment to the Rights Agreement, by and between the Company and Bank One, Texas N.A. (successor to Society National Bank), as Rights Agent, dated April 1, 1995 (incorporated by reference to Exhibit 4.9 to the Company's Annual Report on Form 10-K for the ended December 31, 1995).
4.2(f)	Fifth Amendment to the Rights Agreement between the Company and American Stock Transfer & Trust Company as Rights Agent dated April 29, 1999 (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated April 29, 1999).

<b>Exhibit No.</b>	<b>Description</b>
4.3	Certificate of Voting Powers, Designations, Preferences, and Relative, Participating, Optional or Other Special Rights of the Series A 1999 Convertible Preferred Stock and Series B 1999 Non-Convertible Preferred Stock (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated April 29, 1999).
4.4	Stock Purchase Agreement dated April 29, 1999 between the Company and certain purchasers (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 29, 1999).
4.5	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock dated December 6, 1990 (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3, dated October 25, 1996).
4.2	Indenture dated as April 29, 1999 between the Company and U.S. Trust Company of Texas, N.A., Trustee for the \$150,000,000 11¼ % Senior Notes due 2007 (incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated April 29, 1999).
10.1*	Credit Agreement dated as of December 3, 1999, between the Company, the Banks Party thereto and Bank One, NA, as Administrative Agent, Toronto Dominion (Texas), Inc., as Syndication Agent and Paribas, as Documentation Agent.
10.2#	Employment Agreement dated June 23, 1999, by and between the Company and M. Jay Allison (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
10.3#	Employment Agreement dated June 23, 1999, by and between the Company and Roland O. Burns (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
10.4#	Change in Control Employment Agreement dated May 15, 1997, by and between the Company and M. Jay Allison (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).
10.5#	Change in Control Employment Agreement dated May 15, 1997, by and between the Company and Roland O. Burns (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).
10.6#	Comstock Resources, Inc. 1999 Long-term Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
10.7#	Form of Nonqualified Stock Option Agreement between the Company and certain officers and directors of the Company (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the year ended June 30, 1999).
10.8#	Form of Restricted Stock Agreement between the Company and certain officers of the Company (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).

<b>Exhibit No.</b>	<b>Description</b>
10.9	Warrant Agreement dated December 9, 1997 by and between the Company and Bois d' Arc Resources (incorporated herein by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.10	Joint Exploration Agreement dated December 8, 1997 by and between the Company and Bois d' Arc Resources (incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.11	Office Lease Agreement dated August 12, 1997 between the Company and Briar Center LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).
21*	Subsidiaries of the Company.
23*	Consent of Arthur Andersen LLP.
27*	Financial Data Schedule for the twelve months ended December 31, 1999.

\*Filed herewith.

# Management contract or compensatory plan document.

#### **Reports on Form 8-K:**

There were no reports filed on Form 8-K filed subsequent to September 30, 1999 to the date of this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/M. JAY ALLISON

M. Jay Allison

President and Chief Executive Officer

(Principal Executive Officer)

Date: February 28, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>/s/M. JAY ALLISON</u> M. Jay Allison	President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	February 28, 2000
<u>/s/ROLAND O. BURNS</u> Roland O. Burns	Senior Vice President, Chief Financial Officer, Secretary, Treasurer and Director (Principal Financial and Accounting Officer)	February 28, 2000
<u>/s/RICHARD S. HICKOK</u> Richard S. Hickok	Director	February 28, 2000
<u>/s/FRANKLIN B. LEONARD</u> Franklin B. Leonard	Director	February 28, 2000
<u>/s/CECIL E. MARTIN, JR.</u> Cecil E. Martin, Jr.	Director	February 28, 2000
<u>/s/DAVID W. SLEDGE</u> David W. Sledge	Director	February 28, 2000



**CONSOLIDATED FINANCIAL STATEMENTS OF  
COMSTOCK RESOURCES, INC. AND SUBSIDIARIES**

**INDEX**

Report of Independent Public Accountants .....	F-2
Consolidated Balance Sheets as of December 31, 1998 and 1999 .....	F-3
Consolidated Statements of Operations for the Years Ended December 31, 1997, 1998 and 1999 .....	F-4
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 1997, 1998 and 1999 .....	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 1997, 1998 and 1999 .....	F-6
Notes to Consolidated Financial Statements .....	F-7

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders  
of Comstock Resources, Inc.:

We have audited the accompanying consolidated balance sheets of Comstock Resources, Inc. (a Nevada corporation) and subsidiaries as of December 31, 1998 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Comstock Resources, Inc. and subsidiaries as of December 31, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Dallas, Texas,  
February 18, 2000

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS As of December 31, 1998 and 1999

#### ASSETS

	December 31,	
	1998	1999
	(In thousands)	
Cash and Cash Equivalents	\$ 5,176	\$ 7,648
Accounts Receivable:		
Oil and gas sales	13,355	18,200
Joint interest operations	4,506	5,415
Other Current Assets	1,457	909
Total current assets	24,494	32,172
Property and Equipment:		
Unevaluated oil and gas properties	436	2,231
Oil and gas properties, successful efforts method	547,372	581,247
Other	1,648	2,163
Accumulated depreciation, depletion and amortization	(145,439)	(189,779)
Net property and equipment	404,017	395,862
Other Assets	1,161	6,939
	\$ 429,672	\$ 434,973

#### LIABILITIES AND STOCKHOLDERS' EQUITY

Current Portion of Long-Term Debt	\$ 38,104	131
Accounts Payable and Accrued Expenses	34,652	35,587
Total current liabilities	72,756	35,718
Long-Term Debt, less current portion	240,000	254,000
Deferred Taxes Payable	1,778	261
Reserve for Future Abandonment Costs	5,475	7,820
Stockholders' Equity:		
Preferred stock--\$10.00 par, 5,000,000 shares authorized, 3,000,000 shares outstanding at December 31, 1999	—	30,000
Common stock--\$0.50 par, 50,000,000 shares authorized, 24,350,452 and 25,375,197 shares outstanding at December 31, 1998 and 1999, respectively	12,175	12,688
Additional paid-in capital	112,432	114,855
Retained earnings (deficit)	(14,934)	(19,603)
Deferred compensation-restricted stock grants	(10)	(766)
Total stockholders' equity	109,663	137,174
	\$ 429,672	\$ 434,973

The accompanying notes are an integral part of these statements.

**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Years Ended December 31, 1997, 1998 and 1999**

	<b>1997</b>	<b>1998</b>	<b>1999</b>
	(In thousands, except per share amounts)		
<b>Revenues:</b>			
Oil and gas sales .....	\$ 88,555	\$ 92,961	\$ 90,103
Gain on sales of property .....	85	—	130
Other income .....	704	274	1,911
Total revenues .....	89,344	93,235	92,144
<b>Expenses:</b>			
Oil and gas operating .....	17,919	24,747	23,714
Exploration .....	2,810	8,301	1,832
Depreciation, depletion and amortization .....	26,235	51,005	45,171
General and administrative, net .....	2,668	1,617	2,399
Interest .....	5,934	16,977	23,361
Impairment of oil and gas properties .....	—	17,000	—
Total expenses .....	55,566	119,647	96,477
Income (loss) before income taxes .....	33,778	(26,412)	(4,333)
Income tax benefit (expense) .....	(11,622)	9,244	1,517
Net income (loss) .....	22,156	(17,168)	(2,816)
Preferred stock dividends .....	(410)	—	(1,853)
Net income (loss) attributable to common stock .....	\$ 21,746	\$ (17,168)	\$ (4,669)
<b>Net income (loss) per share:</b>			
Basic .....	\$ 0.90	\$ (0.71)	\$ (0.19)
Diluted .....	\$ 0.85		
<b>Weighted average shares outstanding:</b>			
Basic .....	24,186	24,275	24,601
Diluted .....	26,008		

The accompanying notes are an integral part of these statements.

**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**For the Years Ended December 31, 1997, 1998 and 1999**

	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earning (Deficit)</u>	<u>Deferred Compensation Restricted Stock Grants</u>	<u>Total</u>
	(In thousands)					
Balance at December 31, 1996 . . . . .	\$ 7,063	\$ 12,051	\$ 118,647	\$ (19,512)	\$ (33)	\$ 118,216
Conversion of preferred stock . . . . .	(7,063)	673	6,390	—	—	—
Issuance of common stock . . . . .	—	53	708	—	—	761
Repurchase of common stock . . . . .	—	(673)	(15,472)	—	—	(16,145)
Restricted stock grants . . . . .	—	—	—	—	16	16
Net income attributable to common stock . . . . .	—	—	—	21,746	—	21,746
Balance at December 31, 1997 . . . . .	<u>—</u>	<u>12,104</u>	<u>110,273</u>	<u>2,234</u>	<u>(17)</u>	<u>124,594</u>
Issuance of common stock . . . . .	—	71	664	—	—	735
Value of stock options issued for exploration prospects . . . . .	—	—	1,495	—	—	1,495
Restricted stock grants . . . . .	—	—	—	—	7	7
Net loss attributable to common stock . . . . .	—	—	—	(17,168)	—	(17,168)
Balance at December 31, 1998 . . . . .	<u>—</u>	<u>12,175</u>	<u>112,432</u>	<u>(14,934)</u>	<u>(10)</u>	<u>109,663</u>
Issuance of preferred stock . . . . .	30,000	—	—	—	—	30,000
Issuance of common stock . . . . .	—	400	1,166	—	—	1,566
Value of stock options issued for exploration prospects . . . . .	—	—	498	—	—	498
Restricted stock grants . . . . .	—	113	759	—	(756)	116
Net loss attributable to common stock . . . . .	—	—	—	(4,669)	—	(4,669)
Balance at December 31, 1999 . . . . .	<u>\$ 30,000</u>	<u>\$ 12,688</u>	<u>\$ 114,855</u>	<u>\$ (19,603)</u>	<u>\$ (766)</u>	<u>\$ 137,174</u>

The accompanying notes are an integral part of these statements.

**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 1997, 1998 and 1999**

	<b>1997</b>	<b>1998</b>	<b>1999</b>
		<b>(In thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss) .....	\$ 22,156	\$ (17,168)	\$ (2,816)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Compensation paid in common stock .....	129	269	247
Depreciation, depletion and amortization .....	26,235	51,005	45,171
Impairment of oil and gas properties .....	—	17,000	—
Deferred income taxes .....	11,363	(9,244)	(1,517)
Exploration .....	2,810	8,301	1,832
Gain on sales of property .....	(85)	—	(130)
Working capital provided by operations .....	62,608	50,163	42,787
Decrease (increase) in accounts receivable .....	(11,744)	13,380	(5,754)
Decrease (increase) in other current assets .....	2	(1,285)	548
Increase (decrease) in accounts payable and accrued expenses .....	33,411	(21,532)	935
Net cash provided by operating activities .....	<u>84,277</u>	<u>40,726</u>	<u>38,516</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sales of properties .....	5,079	—	778
Capital expenditures and acquisitions .....	<u>(254,843)</u>	<u>(67,387)</u>	<u>(35,981)</u>
Net cash provided by operating activities .....	<u>(249,764)</u>	<u>(67,387)</u>	<u>(35,203)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Borrowings .....	295,000	23,238	10,378
Proceeds from senior notes offering .....	—	—	149,221
Debt issuance costs .....	—	(1,059)	(5,671)
Principal payments on debt .....	(115,108)	(5,134)	(184,351)
Proceeds from preferred stock offering .....	—	—	30,000
Proceeds from common stock issuances .....	507	288	296
Repurchase of common stock .....	(16,145)	—	—
Stock issuance costs .....	(15)	—	(714)
Dividends paid on preferred stock .....	(410)	—	—
Net cash provided by financing activities .....	<u>163,829</u>	<u>17,333</u>	<u>(841)</u>
Net increase (decrease) in cash and cash equivalents.	(1,658)	(9,328)	2,472
Cash and cash equivalents, beginning of year .....	<u>16,162</u>	<u>14,504</u>	<u>5,176</u>
Cash and cash equivalents, end of year .....	<u>\$ 14,504</u>	<u>\$ 5,176</u>	<u>\$ 7,648</u>

The accompanying notes are an integral part of these statements.

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### (1) Business and Organization

Comstock Resources, Inc., a Nevada corporation (together with its subsidiaries, the "Company"), was formed in 1919 as Comstock Tunnel and Drainage Company. In 1987, the Company's name was changed to Comstock Resources, Inc. The Company is primarily engaged in the acquisition, development, production and exploration of oil and natural gas properties in the United States.

#### (2) Significant Accounting Policies

##### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

##### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### *Concentrations of Credit Risk*

Although the Company's cash equivalents and accounts receivable are exposed to credit loss, the Company does not believe such risk to be significant. Cash equivalents are high-grade, short-term securities, placed with highly rated financial institutions. Most of the Company's accounts receivable are from a broad and diverse group of oil and gas companies and, accordingly, do not represent a significant credit risk.

##### *Oil and Gas Properties*

The Company follows the successful efforts method of accounting for its oil and gas operations. Under this method, costs of productive wells, development dry holes and productive leases are capitalized and amortized on a unit-of-production basis over the life of the remaining related oil and gas reserves. Cost centers for amortization purposes are determined on a field area basis. The estimated future costs of dismantlement, restoration and abandonment are accrued as part of depreciation, depletion and amortization expense and included in the accompanying Consolidated Balance Sheets as Reserve for Future Abandonment Costs.

Oil and gas leasehold costs are capitalized. Unproved oil and gas properties with significant acquisition costs are periodically assessed and any impairment in value is charged to expense. The costs of unproved properties which are determined to be productive are transferred to proved oil and gas properties. Exploratory expenses, including geological and geophysical expenses and delay rentals for unevaluated oil and gas properties, are charged to expense as incurred. Exploratory drilling costs are initially capitalized as unproved property but charged to expense if and when the well is determined not to have found proved oil and gas reserves.



## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

In accordance with the Statement of Financial Accounting Standards 121 "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of", the Company assesses the need for an impairment of capitalized costs of oil and gas properties on a property by property basis. If an impairment is indicated based on undiscounted expected future cash flows, then an impairment is recognized to the extent that net capitalized costs exceed discounted expected future cash flows. No impairment was required in 1997 or 1999. Due to the substantial drop in oil and gas prices during 1998, the Company provided an impairment of \$17.0 million in 1998.

#### *Other Property and Equipment*

Other property and equipment of the Company consists primarily of work boats, a gas gathering system, computer equipment and furniture and fixtures which are depreciated over estimated useful lives on a straight-line basis.

#### *Other Assets*

Other assets of the Company primarily consists of deferred costs associated with issuance of the Company's 11¼% senior notes and borrowings under the Company's bank credit facility. These costs are amortized over the lives of the respective debt instruments on a straight-line basis.

#### *Income Taxes*

Deferred income taxes are provided to reflect the future tax consequences of differences between the tax basis of assets and liabilities and their reported amounts in the financial statements using enacted tax rates.

#### *Earnings Per Share*

Basic and diluted earnings per share for 1997, 1998 and 1999 were determined as follows:

	Year Ended December 31,								
	1997			1998			1999		
	Income (Loss)	Shares	Per Share	Income (Loss)	Shares	Per Share	Income (Loss)	Shares	Per Share
<i>Basic Earnings Per Share:</i>									
Income (Loss) . . . . .	\$ 22,156	24,186		\$ (17,168)	24,275		\$ (2,816)	24,601	
Less Preferred Stock									
Dividends . . . . .	(410)	—		—	—		(1,853)	—	
Net Income (Loss) Available									
to Common Stockholders . . . .	21,746	24,186	\$ 0.90	\$ (17,168)	24,275	\$ (0.71)	\$ (4,669)	24,601	\$ (0.19)
<i>Diluted Earning Per Share:</i>									
Effect of Dilutive Securities:									
Stock Options . . . . .	—	967							
Convertible Preferred Stock . . .	410	855							
Net Income Available to									
Common Stockholders and									
Assumed Conversions . . . . .	\$ 22,156	26,008	\$ 0.85						

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### *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.

The following is a summary of all significant noncash investing and financing activities and cash payments made for interest and income taxes:

	<b>Year Ended December 31,</b>		
	<b>1997</b>	<b>1998</b>	<b>1999</b>
Noncash activities –			
Common stock issued for compensation . . . . .	\$ 113	\$ 269	\$ 131
Value of vested stock options under exploration venture . . . . .	–	1,495	498
Common stock issued in payment of preferred stock dividends . . . . .	–	–	1,853
Cash payments –			
Interest payments . . . . .	5,112	19,898	20,840
Income tax payments . . . . .	270	–	–

#### *Comprehensive Income*

In June 1997, the Financial Accounting Standards Board (the "FASB") issued Statement 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 established reporting and disclosure requirements for comprehensive income and its components within the financial statements. The Company had no comprehensive income components as of December 31, 1997, 1998, 1999 and the three years ended December 31, 1999; therefore, comprehensive income/ loss is the same as net income/ loss for all periods presented.

#### *Segment Reporting*

In June 1997, the FASB issued Statement 131, "Disclosures About Segments of an Enterprise and Related Information." The Company presently operates in one business segment.

#### *New Accounting Standard*

In September 1998, the FASB issued Statement of Financial Accounting Standards 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") which has been amended by SFAS 137. The Statement establishes accounting and reporting standards that are effective for fiscal years beginning after June 15, 2000 which require that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The Company periodically uses derivatives to hedge floating interest rate and natural gas price risks. Such derivatives are reported at cost, if any, and gains and losses on such derivatives are reported when the hedged transaction occurs. Accordingly, the Company's adoption of SFAS 133 will have an impact on the reported financial position of the Company, and although such impact has not been determined, it is currently not believed to be material. Adoption of SFAS 133 should have no significant impact on reported earnings, but could materially affect comprehensive income.

#### (3) Oil and Gas Producing Activities

Set forth below is certain information regarding the aggregate capitalized costs of oil and gas properties and costs incurred in oil and gas property acquisition, development and exploration activities:

##### *Capitalized Costs*

	<b>As of December 31,</b>	
	<b>1998</b>	<b>1999</b>
	<b>(In thousands)</b>	
Proved properties .....	\$ 547,372	\$ 581,247
Unproved properties .....	436	2,231
Accumulated depreciation, depletion and amortization .....	(145,152)	(189,270)
	<b><u>\$ 402,656</u></b>	<b><u>\$ 394,208</u></b>

##### *Costs Incurred*

	<b>For the Year Ended December 31,</b>		
	<b>1997</b>	<b>1998</b>	<b>1999</b>
	<b>(In thousands)</b>		
Property acquisitions			
Proved properties .....	\$ 190,708	\$ —	\$ 4,458
Unproved properties .....	31,650	6,075	2,258
Development costs .....	25,282	30,559	20,455
Exploration costs .....	6,043	30,423	8,126
	<b><u>\$ 253,683</u></b>	<b><u>\$ 67,057</u></b>	<b><u>\$ 35,297</u></b>

**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

The following presents the results of operations of oil and gas producing activities:

	<b>For the Year Ended December 31,</b>		
	<b>1997</b>	<b>1998</b>	<b>1999</b>
	<b>(In thousands)</b>		
Oil and gas sales .....	\$ 88,555	\$ 92,961	\$ 90,103
Production costs .....	(17,919)	(24,747)	(23,714)
Exploration .....	(2,810)	(8,301)	(1,832)
Deprecation, depletion and amortization .....	(26,111)	(50,738)	(44,118)
Impairment of oil and gas properties .....	—	(17,000)	—
Operating income (loss) .....	41,715	(7,825)	20,439
Income tax .....	(14,353)	2,739	(7,154)
Results of operations (excluding general and administrative and interest expenses) . . . .	\$ 27,362	\$ (5,086)	\$ 13,285

**(4) Long-Term Debt**

Long-term debt is comprised of the following:

	<b>As of December 31,</b>	
	<b>1998</b>	<b>1999</b>
	<b>(In thousands)</b>	
Revolving Bank Credit Facility .....	\$ 278,000	\$ 104,000
11¼% Senior Notes due 2007 .....	-	150,000
Other .....	104	131
	278,104	254,131
Less current portion .....	(38,104)	(131)
	\$ 240,000	\$ 254,000

On April 29, 1999, the Company closed the sale of \$150.0 million in aggregate principal amount of 11¼% Senior Notes due in 2007 (the "Notes"). Interest on the Notes is payable semiannually on May 1 and November 1, commencing on November 1, 1999. Proceeds from the sale of the Notes were used to reduce amounts outstanding under the Company's bank credit facility. The Notes are unsecured obligations of the Company and are guaranteed by all of the Company's principal operating subsidiaries. The Company can redeem the Notes beginning on May 1, 2004. The fair market value of the Notes as of December 31, 1999 was \$153.0 million based on the market price of 102.0 of the face amount as of the closing day of 1999.

The Company's bank credit facility consists of a \$175.0 million revolving credit commitment provided by a syndicate of banks for which Bank One, NA serves as administrative agent. The borrowing base under the bank credit facility is \$175.0 million. Such borrowing base may be affected from time to time by the performance of the Company's oil and gas properties and changes in oil and gas prices. The determination of the Company's borrowing base is at the sole discretion of the administrative agent and the bank group. The revolving credit line under the bank credit facility bears interest at the option of the Company, based on the utilization of the borrowing base, at either (i) LIBOR plus 1.25% to 2.0%, or (ii) the "corporate base rate" plus

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

0.25% to 1.0%. The Company incurs a commitment fee, based on the utilization of the borrowing base, of 0.25% to 0.5% per annum on the unused portion of the borrowing base. The revolving credit line matures on December 9, 2002 or such earlier date as the Company may elect. The bank credit facility contains covenants which, among other things, restrict the payment of cash dividends, limit the amount of consolidated debt, and limit the Company's ability to make certain loans and investments. Significant financial covenants include the maintenance of a current ratio, as defined, (1.0 to 1.0), maintenance of tangible net worth (\$105.0 million), and maintenance of an interest coverage ratio (2.5 to 1.0). The Company's bank credit facility is secured by the Company's oil and gas properties.

#### (5) Lease Commitments

The Company rents office space under a noncancellable lease. Minimum future payments under the lease are as follows:

	(In thousands)
2000 .....	\$ 421
2001 .....	421
2002 .....	421
2003 .....	421
2004 .....	456

#### (6) Stockholders' Equity

##### *Preferred Stock*

On April 29, 1999, the Company sold 3,000,000 shares of newly issued convertible preferred stock with a \$10 par value in a private placement for \$30.0 million. The preferred stock accrues dividends at an annual rate of 9% which are payable quarterly in cash or in shares of the Company's common stock, at the election of the Company. Shares of the preferred stock are convertible, at the option of the holder, into shares of common stock of the Company. Based on the initial conversion price of \$4.00 per share of common stock, each share of preferred stock is convertible into 2.5 shares of common stock. On May 1, 2005 and on each May 1, thereafter, so long as any shares of the preferred stock are outstanding, the Company is obligated to redeem an amount of shares of preferred stock equal to one-third of the shares of the preferred stock outstanding on May 1, 2005 at \$10.00 per share plus accrued and unpaid dividends. The mandatory redemption price may be paid either in cash or in shares of common stock, at the option of the Company. The Company has the option to redeem the shares of preferred stock upon payment to the holders of the preferred stock at a specified rate of return on the initial purchase. Upon a change of control of the Company, the holders of the preferred stock have the right to require the Company to purchase all or a portion of the preferred stock.

##### *Common Stock*

Under a plan adopted by the Board of Directors, non-employee directors can elect to receive shares of common stock valued at the then current market price in payment of annual director and consulting fees. Under this plan, the Company issued 9,256, 39,678 and 44,255 shares of common stock in 1997, 1998, 1999 respectively, in payment of fees aggregating \$113,000, \$263,000 and \$130,000 for 1997, 1998 and 1999, respectively.

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The Company's outstanding preferred stock series provides that the Company can issue common stock in lieu of cash for payment of quarterly dividends. The Company issued 640,525 shares of common stock in 1999 in payment of dividends on its preferred stock of \$1.9 million.

On August 20, 1997, the Company repurchased 1,345,373 shares of common stock held by former preferred stockholders at \$12.00 per share for an aggregate purchase price of \$16.1 million.

Options and warrants to purchase common stock of the Company were exercised for 98,100 shares, 102,000 shares and 115,000 shares in 1997, 1998 and 1999, respectively. Such exercises yielded net proceeds to the Company of approximately \$507,000, \$288,000 and \$295,000 in 1997, 1998 and 1999, respectively.

#### *Stock Options and Warrants*

On June 23, 1999, the Company's stockholders approved the 1999 Long-term Incentive Plan for the Company's management including officers, directors and managerial employees which replaced the Company's 1991 Long-term Incentive Plan. The 1999 Long-term Incentive Plan together with the 1991 Long-term Incentive Plan (the "Incentive Plans") authorize the grant of non-qualified stock options and incentive stock options and the grant of restricted stock to key executives of the Company. As of December 31, 1999, the Incentive Plans provide for future awards of stock options or restricted stock grants of up to 211,130 shares of common stock plus 1% of the outstanding shares of common stock each year beginning January 1, 2000.

The following table summarizes stock option activity during 1997, 1998 and 1999 under the Incentive Plans:

	<b>Number of Shares</b>	<b>Exercise Price</b>	<b>Weighted Average Exercise Price</b>
Outstanding at December 31, 1996 . . . . .	2,601,500	\$2.00 to \$11.00	\$7.45
Granted . . . . .	667,000	\$9.63 to \$12.38	\$12.00
Exercised . . . . .	<u>(50,000)</u>	\$3.00 to \$6.56	\$5.33
Outstanding at December 31, 1997	3,218,500	\$2.00 to \$12.38	\$8.43
Granted . . . . .	767,000	\$3.44 to \$11.94	\$4.57
Exercised . . . . .	(85,000)	\$2.00 to \$2.50	\$2.38
Forfeited . . . . .	<u>(10,000)</u>	\$3.44	\$3.44
Outstanding at December 31, 1998	3,890,500	\$2.00 to \$12.38	\$7.81
Granted . . . . .	1,010,000	\$3.88	\$3.88
Exercised . . . . .	(115,000)	\$2.00 to \$3.00	\$2.57
Forfeited . . . . .	<u>(155,500)</u>	\$3.00 to \$12.38	\$7.81
Outstanding at December 31, 1999 . . . . .	<u>4,630,000</u>	\$2.00 to \$12.38	\$7.08
Exercisable at December 31, 1999 . . . . .	<u>2,436,250</u>	\$2.00 to \$12.38	\$6.88

**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

The following table summarizes information about the Incentive Plans stock options outstanding at December 31, 1999:

<u>Exercise Price</u>	<u>Number of Shares Outstanding</u>	<u>Weighted Average Remaining Life (Years)</u>	<u>Number of Shares Exercisable</u>
\$2.00	401,000	1.3	396,000
\$2.50	20,000	2.5	17,000
\$3.00	80,000	0.6	80,000
\$3.44	542,000	7.8	338,750
\$3.88	1,010,000	8.3	40,000
\$4.81	234,000	1.6	234,000
\$6.56	235,000	2.1	235,000
\$6.94	150,000	4.0	150,000
\$9.63	90,000	2.6	90,000
\$11.00	1,269,000	5.7	579,000
\$11.94	40,000	3.9	40,000
\$12.38	<u>559,000</u>	<u>5.5</u>	<u>236,500</u>
	<u>4,630,000</u>	<u>5.5</u>	<u>2,436,250</u>

The Company accounts for the stock options issued under the Incentive Plans under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for these plans been determined consistent with Statement of Financial Accounting Standards 123 ("SFAS 123") "Accounting for Stock-Based Compensation," the Company's net income attributable to common stock and earnings per share from continuing operations would have been reduced to the following pro forma amounts:

		<u>1997</u>	<u>1998</u>	<u>1999</u>
		(In thousands, except per share amounts)		
Net income:	As Reported . . . . .	\$ 21,746	\$ (17,168)	\$ (4,669)
	Pro Forma . . . . .	18,633	(20,651)	(6,644)
Basic earnings per share:	As Reported . . . . .	0.90	(0.71)	(0.19)
	Pro Forma . . . . .	0.77	(0.85)	(0.27)
Diluted earnings per share:	As Reported . . . . .	0.85		
	Pro Forma . . . . .	0.72		

Because the SFAS 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1997, 1998 and 1999, respectively: average risk-free interest rates of 6.33, 5.30, and 5.65 percent; average expected lives of 7.3, 8.2, and 8.8 years; average expected volatility factors of 51.9, 58.8 and 64.2; and no dividend yield. The estimated weighted average fair value of options to purchase one share of common stock issued under the Company's Incentive Plans was \$7.45 in 1997, \$2.98 in 1998 and \$2.86 in 1999.

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

On December 8, 1997, the Company awarded warrants to purchase up to 1,000,000 shares of the Company's common stock at \$14.00 per share to Bois d' Arc in connection with a five-year joint exploration venture. The warrants become exercisable in increments of 50,000 shares upon the election by the Company to complete a successful exploration well on a prospect generated by Bois d' Arc under the joint exploration venture. Warrants which become exercisable under the exploration venture expire on December 31, 2007. The fair value of each warrant to purchase one share of common stock is estimated at the date of grant at \$9.97 using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 6.35 percent; expected life of 10.1 years; expected volatility factor of 51.9 percent; and no dividend yield. Warrants to purchase 150,000 shares and 50,000 shares became vested in 1998 and 1999, respectively. The estimated value of the warrants which vested in 1998 and 1999 of \$1.5 million and \$498,000, respectively, was included as exploration costs in each year.

#### *Restricted Stock Grants*

Under the Incentive Plans, officers and managerial employees of the Company may be granted a right to receive shares of the Company's common stock without cost to the employee. The shares vest over a specified period with credit given for past service rendered to the Company. Restricted stock grants for 555,000 shares have been awarded under the Incentive Plans. As of December 31, 1999, 355,625 shares of such awards are vested. A provision for the restricted stock grants is made ratably over the vesting period. Compensation expense recognized for restricted stock grants for the years ended December 31, 1997, 1998 and 1999 was \$15,000, \$7,000 and \$116,000, respectively.

#### **(7) Significant Customers**

The Company had sales to one purchaser of crude oil which accounted for 17%, 25% and 33% of the Company's oil and gas sales in 1997, 1998 and 1999, respectively. In 1997 and 1999, the Company had one purchaser of natural gas which accounted for 35% and 20%, respectively, of the Company's oil and gas sales. In 1998 the Company had two purchasers of natural gas which accounted for 17% and 12% of the Company's oil and gas sales.

#### **(8) Income Taxes**

The tax effects of significant temporary differences representing the net deferred tax liability at December 31, 1998 and 1999 were as follows:

	<u>1998</u>	<u>1999</u>
	(In thousands)	
Net deferred tax assets (liabilities):		
Property and equipment . . . . .	\$ (22,150)	\$ (15,804)
Net operating loss carryforwards . . . . .	20,102	14,993
Other carryforwards . . . . .	<u>270</u>	<u>550</u>
	<u>\$ (1,778)</u>	<u>\$ (261)</u>



## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

	<u>1998</u>	<u>1999</u>
	(In thousands)	
Current .....	\$ —	\$ —
Deferred .....	<u>9,244</u>	<u>1,517</u>
	<u>\$ 9,244</u>	<u>\$ 1,517</u>

The difference between income taxes computed using the statutory rate of 35% and the Company's effective tax rate in 1998 and 1999 is as follows:

	<u>1998</u>	<u>1999</u>
	(In thousands)	
Income tax benefit (expense)		
computed at federal statutory rate ....	\$ 9,244	\$ 1,517
Other .....	<u>—</u>	<u>—</u>
	<u>\$ 9,244</u>	<u>\$ 1,517</u>

The Company has net operating loss carryforwards of approximately \$42.8 million as of December 31, 1999 for income tax reporting purposes which expire in varying amounts from 2009 to 2019.

#### (9) Related Party Transactions

The Company served as general partner of Comstock DR-II Oil & Gas Acquisition Limited Partnership ("Comstock DR-II") until December 29, 1997. In 1997, the Company received management fees from Comstock DR-II of \$40,000.

#### (10) Risk Management

The Company's market risk exposures relate primarily to commodity prices and interest rates. Therefore, the Company periodically uses commodity price swaps to hedge the impact of natural gas price fluctuations and uses interest rate swaps to hedge interest rates on floating rate debt. The Company does not engage in activities using complex or highly leveraged instruments. These instruments are generally put in place to limit risk of adverse natural gas price or interest rate movements, however, these instruments usually limit future gains from favorable natural gas prices or lower interest rates. Recognition of realized gains or losses in the Consolidated Statements of Operations are deferred until the underlying physical product is purchased or sold. Unrealized gains or losses on derivative financial instruments are not recorded. The cash flow impact of derivative and other financial instruments is reflected as cash flows from operating activities in the Consolidated Statements of Cash Flows.

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

As a result of certain hedging transactions for natural gas the Company realized the following gains and losses:

	<b>1997</b>	<b>1998</b>	<b>1999</b>
	(In thousands)		
Realized Gains .....	\$ —	\$ 367	\$ 248
Realized Losses .....	—	—	(5,178)

As of December 31, 1998 and 1999, the Company had no open derivative financial instruments held for price risk management.

The Company periodically enters into interest rate swap agreements to hedge the impact of interest rate changes on a portion of its long-term debt. Gains and losses attributable to the swap agreements are accounted for as a hedge. Gains from the swap agreements reduced interest expense by \$59,000 in 1998 and \$169,000 in 1999. At December 31, 1999, the Company had swap agreements with a notional amount of \$100.0 million which fixed the Company LIBOR rate under its bank credit facility at an average rate of 5.0%. The fair value of the interest rate swaps as of December 31, 1999 was an asset of approximately \$860,000.

#### (11) Supplementary Quarterly Financial Data (Unaudited)

	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Total</b>
	(In thousands, except per share amounts)				
1998 -					
Total revenues .....	\$ 25,558	\$ 24,894	\$ 21,517	\$ 21,266	\$ 93,235
Net income (loss) attributable					
to common stock .....	\$ 570	\$ (1,304)	\$ (3,387)	\$ (13,047)	(1) \$ (17,168) (1)
Net income (loss) per share:					
Basic .....	\$ 0.02	\$ (0.05)	\$ (0.14)	\$ (0.54)	\$ (0.71)
Diluted .....	\$ 0.02				
1999 -					
Total revenues .....	\$ 19,634	\$ 22,676	\$ 22,974	\$ 26,860	\$ 92,144
Net income (loss) attributable					
to common stock .....	\$ (4,119)	(1,384)	(1,339)	2,173	\$ (4,669)
Net income (loss) per share .....	\$ (0.17)	\$ (0.06)	\$ (0.05)	\$ 0.09	\$ (0.19)

(1) Includes impairment of oil and gas properties of \$17 million.

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

#### (12) Oil and Gas Reserves Information (Unaudited)

The estimates of proved oil and gas reserves utilized in the preparation of the financial statements were estimated by independent petroleum engineers in accordance with guidelines established by the Securities and Exchange Commission and the Financial Accounting Standards Board, which require that reserve reports be prepared under existing economic and operating conditions with no provision for price and cost escalation except by contractual agreement. All of the Company's reserves are located onshore in or offshore to the continental United States.

Future prices received for production and future production costs may vary, perhaps significantly, from the prices and costs assumed for purposes of these estimates. There can be no assurance that the proved reserves will be developed within the periods indicated or that prices and costs will remain constant. There can be no assurance that actual production will equal the estimated amounts used in the preparation of reserve projections. In accordance with the Securities and Exchange Commission's guidelines, the Company's independent petroleum engineers' estimates of future net cash flows from the Company's proved properties and the present value thereof are made using oil and natural gas sales prices in effect as of the dates of such estimates and are held constant throughout the life of the properties. Average prices used in estimating the future net cash flows were as follows: \$10.55 and \$24.56 per barrel of oil for 1998 and 1999, respectively, and \$2.21 and \$2.51 per Mcf of natural gas for 1998 and 1999, respectively.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures. Oil and gas reserve engineering must be recognized as a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact way, and estimates of other engineers might differ materially from those shown below. The accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Results of drilling, testing and production after the date of the estimate may justify revisions. Accordingly, reserve estimates are often materially different from the quantities of oil and gas that are ultimately recovered. Reserve estimates are integral in management's analysis of impairments of oil and gas properties and the calculation of depreciation, depletion and amortization on those properties.

**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

The following unaudited table sets forth proved oil and gas reserves at December 31, 1997, 1998 and 1999:

	<b>1997</b>		<b>1998</b>		<b>1999</b>	
	<b>Oil (MBbls)</b>	<b>Gas (MMcf)</b>	<b>Oil (MBbls)</b>	<b>Gas (MMcf)</b>	<b>Oil (MBbls)</b>	<b>Gas (MMcf)</b>
Proved Reserves:						
Beginning of year .....	8,994	234,444	20,927	240,117	20,245	250,402
Revisions of previous estimates .....	(1,202)	(7,398)	(3,284)	12,025	(1,695)	(14,272)
Extensions and discoveries .....	263	5,566	5,173	24,973	3,029	39,534
Purchases of minerals in place ...	14,473	39,970	—	—	16	6,329
Sales of minerals in place .....	(258)	(9,605)	—	—	—	—
Production .....	<u>(1,343)</u>	<u>(22,860)</u>	<u>(2,571)</u>	<u>(26,713)</u>	<u>(2,128)</u>	<u>(23,872)</u>
End of year .....	<u>20,927</u>	<u>240,117</u>	<u>20,245</u>	<u>250,402</u>	<u>19,467</u>	<u>258,121</u>
Proved Developed Reserves:						
Beginning of year .....	<u>6,953</u>	<u>187,247</u>	<u>16,635</u>	<u>188,102</u>	<u>16,585</u>	<u>182,955</u>
End of year .....	<u>16,635</u>	<u>188,102</u>	<u>16,585</u>	<u>182,955</u>	<u>14,379</u>	<u>184,123</u>

The following table sets forth the standardized measure of discounted future net cash flows relating to proved reserves at December 31, 1998 and 1999:

	<b>1998</b>	<b>1999</b>
	<b>(In thousands)</b>	
Cash Flows Relating to Proved Reserves:		
Future Cash Flows .....	\$ 767,869	\$ 1,124,796
Future Costs:		
Production .....	(212,558)	(250,068)
Development .....	(74,130)	(80,519)
Future Net Cash Flows Before Income Taxes .....	481,181	794,209
Future Income Taxes .....	(30,221)	(144,048)
Future Net Cash Flows .....	450,960	650,161
10% Discount Factor .....	(145,967)	(181,448)
Standardized Measure of Discounted Future Net Cash Flows .....	<u>\$ 304,993</u>	<u>\$ 468,713</u>

**COMSTOCK RESOURCES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

The following table sets forth the changes in the standardized measure of discounted future net cash flows relating to proved reserves for the years ended December 31, 1997, 1998 and 1999:

	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(In thousands)		
Standardized Measure, Beginning of Year .....	\$ 390,422	\$ 418,276	\$ 304,993
Net Change in Sales Price, Net of Production Costs .....	(188,079)	(146,742)	179,042
Development Costs Incurred During the Year Which			
Were Previously Estimated .....	10,740	20,361	5,303
Revisions of Quantity Estimates .....	(16,779)	(7,391)	(35,727)
Accretion of Discount .....	50,292	45,956	30,531
Changes in Future Development Costs .....	(3,919)	(19,318)	(437)
Changes in Timing and Other .....	(20,347)	(39,805)	(2,271)
Extensions and Discoveries .....	6,233	60,906	91,911
Purchases of Reserves in Place .....	205,583	-	7,787
Sales of Reserves in Place .....	(16,450)	-	-
Sales, Net of Production Costs .....	(70,636)	(68,214)	(66,389)
Net Changes in Income Taxes .....	71,216	40,964	(46,030)
Standardized Measure, End of Year .....	<u>\$ 418,276</u>	<u>\$ 304,993</u>	<u>\$ 468,713</u>

## CORPORATE INFORMATION

### Directors

M. Jay Allison<sup>1,2</sup>  
 Roland O. Burns  
 Richard S. Hickok<sup>2,4</sup>  
 Franklin B. Leonard<sup>3,4</sup>  
 Cecil E. Martin, Jr.<sup>2,3</sup>  
 David W. Sledge<sup>3,4</sup>

<sup>1</sup>Chairman of the Board of Directors

<sup>2</sup>Executive Committee

<sup>3</sup>Compensation Committee

<sup>4</sup>Audit Committee

### Management

M. Jay Allison  
*President and Chief Executive Officer*

Roland O. Burns  
*Senior Vice President,  
 Chief Financial Officer,  
 Treasurer and Secretary*

Mack D. Good  
*Vice President of Operations*

Stephen E. Neukom  
*Vice President of Marketing*

Richard G. Powers  
*Vice President of Land*

Daniel K. Presley  
*Vice President of Accounting and Controller*

Michael W. Taylor  
*Vice President of Corporate Development*



**COMSTOCK'S NEW HEADQUARTERS IN FRISCO, TEXAS**

### Subsidiaries

Comstock Oil & Gas, Inc.  
 Comstock Oil & Gas – Louisiana, Inc.  
 Comstock Offshore, LLC

### Independent Public Accountants

Arthur Andersen LLP

### Exchange Listing

The Company's common stock is listed for trading on the New York Stock Exchange under the symbol "CRK".

### Commercial Banks

Bank One, NA,  
 Administrative Agent  
 Toronto Dominion (Texas), Inc.,  
 Syndication Agent  
 Paribas,  
 Documentation Agent  
 Meespierson Capital Corporation  
 Christiania Bank OG Kreditkasse, ASA  
 Credit Lyonnais  
 General Electric Capital Corporation  
 Bank of Scotland  
 Natexis Banque — BFCE  
 National Bank of Canada

### Annual Meeting

The annual meeting of stockholders will be held on Monday, May 16, 2000 at 10:00 a.m. at the Stonebriar Country Club, 5050 Country Club Drive, Frisco, Texas. All stockholders are encouraged to attend.

### Investor Relations

Requests for additional information should be directed to:

Roland O. Burns  
 5300 Town and Country Blvd.  
 Suite 500  
 Frisco, Texas 75034  
 (800) 877-1322

### Transfer Agent and Registrar

For stock certificate transfers, changes of address or lost stock certificates, please contact:

American Stock Transfer & Trust Company  
 40 Wall Street – 46th Floor  
 New York, New York 10005  
 (800) 937-5449

### Stock Market Prices

	1998	
	High	Low
First Quarter	\$12	\$8 <sup>3</sup> / <sub>4</sub>
Second Quarter	\$13 <sup>1</sup> / <sub>2</sub>	\$7 <sup>9</sup> / <sub>16</sub>
Third Quarter	\$8 <sup>1</sup> / <sub>8</sub>	\$5 <sup>1</sup> / <sub>4</sub>
Fourth Quarter	\$6 <sup>1</sup> / <sub>8</sub>	\$2 <sup>9</sup> / <sub>16</sub>
	1999	
	High	Low
First Quarter	\$3 <sup>7</sup> / <sub>8</sub>	\$2 <sup>3</sup> / <sub>16</sub>
Second Quarter	\$5 <sup>1</sup> / <sub>8</sub>	\$2 <sup>7</sup> / <sub>16</sub>
Third Quarter	\$5 <sup>7</sup> / <sub>8</sub>	\$3 <sup>3</sup> / <sub>8</sub>
Fourth Quarter	\$4 <sup>1</sup> / <sub>2</sub>	\$2 <sup>5</sup> / <sub>8</sub>



---

# COMSTOCK RESOURCES

5300 Town and Country Blvd. • Suite 500 • Frisco, Texas 75034 • (972) 668-8800  
[www.comstockresources.com](http://www.comstockresources.com)

---