



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

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTIONS 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-03262

**COMSTOCK RESOURCES, INC.**

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of February 25, 2009, there were 46,442,595 shares of common stock outstanding.

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based on the closing price of the Common Stock on the New York Stock Exchange on June 30, 2008 (the last business day of the registrant's most recently completed second fiscal quarter), was \$3.7 billion.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2009 Annual Meeting of Stockholders to be held May 19, 2009 are incorporated by reference into Part III of this report.

COMSTOCK RESOURCES, INC.  
ANNUAL REPORT ON FORM 10-K  
For the Fiscal Year Ended December 31, 2008

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### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

## DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“**Oil**” means crude oil or condensate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**PART I**

**ITEMS 1. and 2. BUSINESS AND PROPERTIES**

Comstock Resources, Inc. (“Comstock”) is a Nevada corporation whose common stock is listed and traded on the New York Stock Exchange and that is engaged in the acquisition, development, production and exploration of oil and natural gas. In August 2008, we divested of our interests in our offshore oil and gas properties through the sale of our stake in Bois d’Arc Energy, Inc. and, accordingly, the discussion which follows pertains solely to our continuing onshore oil and gas operations.

Our oil and gas operations are concentrated in our East Texas/North Louisiana and South Texas regions. Our oil and natural gas properties are estimated to have proved reserves of 581.7 Bcfe with an estimated PV 10 Value of \$820.1 million as of December 31, 2008 and a standardized measure of discounted future net cash flows of \$636.3 million. Our consolidated proved oil and natural gas reserve base is 90% natural gas and 67% proved developed on a Bcfe basis as of December 31, 2008.

Our proved reserves at December 31, 2008 and our 2008 average daily production are summarized below:

	Reserves at December 31, 2008				2008 Daily Production			
	Oil (MMBbls)	Gas (Bcf)	Total (Bcfe)	% of Total	Oil (MMBbls/d)	Gas (MMcf/d)	Total (MMcfe/d)	% of Total
East Texas / North Louisiana	1.5	283.9	292.7	50.3%	0.8	80.1	85.0	51.9%
South Texas	2.1	192.5	205.1	35.3%	0.5	58.8	61.8	37.7%
Other Regions	6.1	47.2	83.9	14.4%	1.5	8.3	17.0	10.4%
Total	9.7	523.6	581.7	100.0%	2.8	147.2	163.8	100.0%

**Strengths**

*High Quality Properties.* Our operations are focused in two primary operating areas, the East Texas/North Louisiana and South Texas regions. We have an extensive acreage position in the emerging Haynesville Shale resource play in East Texas/North Louisiana where we have identified 86,032 gross (70,504 net to us) acres prospective for Haynesville Shale development. Our properties have an average reserve life of approximately 9.7 years and have substantial development and exploration potential.

*Successful Exploration and Development Program.* In 2008 we spent \$426.1 million on exploration and development of our oil and natural gas properties. We drilled 136 wells in 2008, 75.7 net to us, at a cost of \$291.7 million. We spent \$116.0 million to acquire leases in the emerging Haynesville Shale play and we also spent \$18.4 million for other leasehold costs, recompletions, workovers, abandonment and production facilities. Our drilling activities in 2008 added 102.4 Bcfe to our proved reserves and contributed to our 32% production growth in 2008.

*Successful Acquisitions.* We have had significant growth over the years as a result of acquisitions. Since 1991, we have added 984.1 Bcfe of proved oil and natural gas reserves from 36 acquisitions at an average cost of \$1.14 per Mcfe. Our application of strict economic and reserve risk criteria have enabled us to successfully evaluate and integrate acquisitions.

*Efficient Operator.* We operate 85% of our proved oil and natural gas reserve base as of December 31, 2008. As operator we are better able to control operating costs, the timing and plans for future development, the level of drilling and lifting costs and the marketing of production. As an operator, we receive



reimbursements for overhead from other working interest owners, which reduces our general and administrative expenses.

### **Business Strategy**

*Pursue Exploration Opportunities.* We conduct exploration activities to grow our reserve base and to replace our production each year. In late 2007 we identified the potential in our largest operating region, East Texas/North Louisiana, to explore for natural gas in the Haynesville Shale formation, which was below the Cotton Valley, Hosston and Travis Peak sand formations we have been developing. We drilled eight pilot wells to evaluate the prospectivity of the Haynesville Shale. We undertook an active leasing program in 2008 to acquire additional acreage where we believed the Haynesville Shale formation would be prospective and spent \$116.0 million to increase our leasehold with Haynesville Shale potential to 86,032 gross acres (70,504 net to us). We started the commercial development of the Haynesville Shale in late 2008 and drilled two (1.1 net) successful horizontal wells. In 2009, our drilling program will be focused on exploring and developing our Haynesville Shale acreage. During 2009, we plan to spend approximately \$280.0 million drilling 30 (25.8 net to us) Haynesville Shale horizontal wells.

We also have an active exploration program in our South Texas region utilizing 3-D seismic to identify prospects in the Wilcox and Vicksburg formations. In 2008, we drilled four exploratory wells (2.1 net to us), in South Texas. Three of these wells (1.7 net to us) were successful.

*Exploit Existing Reserves.* We seek to maximize the value of our oil and natural gas properties by increasing production and recoverable reserves through development drilling and active workover, recompletion and exploitation activities. We utilize advanced industry technology, including 3-D seismic data, horizontal drilling, improved logging tools, and formation stimulation techniques. During 2008, we spent approximately \$230.6 million to drill 130 development wells (72.5 net to us), all but three of which were successful. We also spent \$14.2 million for recompletion and workovers in 2008.

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

*Maintain Flexible Capital Expenditure Budget.* The timing of most of our capital expenditures is discretionary because we have not made any significant long-term capital expenditure commitments except for contracted drilling services. We operate most of the drilling projects in which we participate. Consequently, we have a significant degree of flexibility to adjust the level of such expenditures according to market conditions. We anticipate spending approximately \$366.0 million on our development and exploration projects in 2009. We intend to primarily use operating cash flow to fund our development and exploration expenditures in 2009 and, to a lesser extent, borrowings under our bank credit facility. We may also make additional property acquisitions in 2009 that would require additional sources of funding. Such sources may include borrowings under our bank credit facility or sales of our equity or debt securities.

**Primary Operating Areas**

The following table summarizes the estimated proved oil and natural gas reserves for our twenty largest field areas as of December 31, 2008:

	Net Oil (MMbbls)	Net Gas (MMcf)	MMcfe	%	PV 10 Value(1) (000's)	%
<b>East Texas / North Louisiana</b>						
Logansport	84	68,196	68,697	11.8%	\$ 79,509	9.7%
Beckville	112	61,013	61,685	10.6%	73,823	9.0%
Waskom	433	32,559	35,159	6.0%	37,371	4.6%
Blocker	122	30,532	31,261	5.4%	29,717	3.6%
Hico-Knowles/Terryville	394	16,986	19,351	3.3%	36,310	4.4%
Darco	50	15,633	15,935	2.7%	15,125	1.8%
Douglass	16	12,556	12,651	2.2%	16,022	2.0%
Toledo Bend	—	10,081	10,081	1.7%	9,058	1.1%
Cadeville	52	9,345	9,658	1.7%	11,865	1.5%
Drew	67	5,339	5,741	1.0%	7,017	0.9%
Other	124	21,676	22,421	3.9%	28,061	3.3%
	<u>1,454</u>	<u>283,916</u>	<u>292,640</u>	<u>50.3%</u>	<u>343,878</u>	<u>41.9%</u>
<b>South Texas</b>						
Fandango	—	52,340	52,340	9.0%	99,307	12.1%
Double A Wells	1,534	41,735	50,938	8.8%	86,953	10.6%
Rosita	—	32,700	32,700	5.6%	49,298	6.0%
Las Hermanitas	2	23,398	23,409	4.0%	44,496	5.4%
Javelina	97	19,689	20,270	3.5%	50,895	6.2%
Sugar Creek	85	9,042	9,551	1.6%	8,192	1.0%
Other	385	13,570	15,887	2.8%	32,697	4.0%
	<u>2,103</u>	<u>192,474</u>	<u>205,095</u>	<u>35.3%</u>	<u>371,838</u>	<u>45.3%</u>
<b>Other</b>						
Laurel	5,705	297	34,524	5.9%	32,390	3.9%
Kentucky	—	11,106	11,106	1.9%	7,009	0.9%
San Juan Basin	23	10,449	10,588	1.8%	16,279	2.0%
Southwest Morse	1	5,332	5,337	0.9%	9,055	1.1%
Other	382	20,069	22,363	3.9%	39,661	4.9%
	<u>6,111</u>	<u>47,253</u>	<u>83,918</u>	<u>14.4%</u>	<u>104,394</u>	<u>12.8%</u>
Total	<u>9,668</u>	<u>523,643</u>	<u>581,653</u>	<u>100.0%</u>	<u>820,110</u>	<u>100.0%</u>
Discounted Future Income Taxes					<u>(183,819)</u>	
Standardized Measure of Discounted Future Cash Flows					<u>\$ 636,291</u>	

(1) The PV 10 Value represents the discounted future net cash flows attributable to our proved oil and gas reserves before income tax, discounted at 10%. Although it is a non-GAAP measure, we believe that the presentation of the PV 10 Value is relevant and useful to our investors because it presents the discounted future net cash flows attributable to our proved reserves prior to taking into account corporate future income taxes and our current tax structure. We use this measure when assessing the potential return on investment related to our oil and gas properties. The standardized measure of discounted future net cash flows represents the present value of future cash flows attributable to our proved oil and natural gas reserves after income tax, discounted at 10%.

**East Texas/North Louisiana Region**

Approximately 50.3% or 292.6 Bcfe of our proved reserves are located in East Texas and North Louisiana where we own interests in 937 producing wells (542.0 net to us) in 27 field areas. We operate 609 of these wells. The largest of our fields in this region are the Logansport, Beckville, Waskom, Blocker, Hico-Knowles/Terryville, Darco, Douglass, Toledo Bend, Cadeville and Drew fields. Production from this region averaged 80.1 MMcf of natural gas per day and 817 barrels of oil per day during 2008. Most of the reserves in this area produce from the Cretaceous aged Travis Peak/Hosston formation and the Jurassic aged Cotton Valley formation. In 2008, we also established commercial production in the Haynesville Shale formation at 11,300 feet. The total thickness of these formations range from 2,000 to 4,000 feet of sand, shale and limestone sequences in the East Texas Basin and the North Louisiana Salt

Basin, at depths ranging from 6,000 to 12,000 feet. In 2008, we spent \$214.2 million drilling 115 wells (61.8 net to us) and \$118.4 million on leasehold costs, workovers and recompletions in this region. Eleven (6.4 net to us) of the 115 wells were horizontal wells. We plan to spend approximately \$319.0 million in 2009 for drilling activities in this region.

*Logansport*

The Logansport field primarily produces from multiple sands in the Cotton Valley and Hosston formations at an average depth of 8,000 feet and is located in DeSoto Parish, Louisiana. This field is also prospective for Haynesville Shale development. Our proved reserves of 68.7 Bcfe in the Logansport field represent approximately 11.8% of our proved reserves. We own interests in 168 wells (106.9 net to us) and operate 118 of these wells in this field. During December 2008, net daily production attributable to our interest from this field averaged 23.0 MMcf of natural gas and 35 barrels of oil. During 2008, we drilled forty-three vertical Hosston wells and one horizontal Haynesville Shale well at Logansport. In 2009, we plan to drill four vertical wells and eight horizontal Haynesville Shale wells at Logansport.

*Beckville*

The Beckville field, located in Panola and Rusk Counties, Texas, has estimated proved reserves of 61.7 Bcfe which represents approximately 10.6% of our proved reserves. We operate 195 wells in this field and own interests in 101 additional wells for a total of 296 wells (163.6 net to us). During December 2008, production attributable to our interest from this field averaged 16.7 MMcf of natural gas per day and 65 barrels of oil per day. The Beckville field produces primarily from the Cotton Valley formation at depths ranging from 9,000 to 10,000 feet. This field is also prospective for Haynesville Shale development. In 2009, we plan to drill two Haynesville Shale horizontal wells at Beckville.

*Waskom*

The Waskom field, located in Harrison and Panola Counties in Texas, represents approximately 6.0% (35.2 Bcfe) of our proved reserves as of December 31, 2008. We own interests in 84 wells in this field (50.1 net to us) and operate 58 wells in this field. During December 2008, net daily production attributable to our interest averaged 5.9 MMcf of natural gas and 45 barrels of oil from this field. The Waskom field produces from the Cotton Valley formation at depths ranging from 9,000 to 10,000 feet. The field is also prospective for Haynesville Shale development. In 2008, we drilled five successful horizontal wells in the Waskom field to develop the Cotton Valley Taylor sand at 9,500 feet. In 2009, we plan to drill five horizontal Haynesville Shale wells at Waskom.

*Blocker*

Our proved reserves of 31.3 Bcfe in the Blocker field located in Harrison County, Texas represent approximately 5.4% of our proved reserves. We own interests in 73 wells (68.1 net to us) and operate 69 of these wells. During December 2008, net daily production attributable to our interest from this field averaged 7.9 MMcf of natural gas and 55 barrels of oil. Most of this production is from the Cotton Valley formation between 8,500 and 10,100 feet. This field looks prospective for Haynesville Shale development. In 2009, we plan to drill eight wells at Blocker, including six Haynesville Shale horizontal wells and two Cotton Valley horizontal wells.

*Hico-Knowles/Terryville*

We have 19.4 Bcfe of proved reserves in the Hico-Knowles/Terryville field area located in Lincoln County, Louisiana which represent approximately 3.3% of our reserves. We own interests in

72 wells (26.4 net to us) and operate 22 of these wells. During December 2008, net daily production attributable to our interest from this field averaged 14.7 MMcf of natural gas and 454 barrels of oil. This production is primarily from the Hosston/Cotton Valley formations between 7,200 and 11,000 feet. In 2008, we drilled 37 successful wells (11.2 net to us) in Hico-Knowles/Terryville.

*Darco*

The Darco field is located in Harrison County, Texas and produces from the Cotton Valley formation at depths from approximately 9,800 to 10,200 feet. Our proved reserves of 15.9 Bcfe in the Darco Field represent approximately 2.7% of our reserves. We own interests in 24 wells (18.9 net to us) and operate all of these wells. During December 2008, net daily production attributable to our interest from this field averaged 2.1 MMcf of natural gas and 10 barrels of oil.

*Douglass*

The Douglass field is located in Nacogdoches County, Texas and is productive from stratigraphically trapped reservoirs in the Pettet Lime and Travis Peak formations. These reservoirs are found at depths from 9,200 to 10,300 feet. Our proved reserves of 12.7 Bcfe in the Douglass field represent approximately 2.2% of our reserves. We own interests in 41 wells (26.2 net to us) and operate 33 of these wells. During December 2008, net daily production attributable to our interest from this field averaged 2.5 MMcf of natural gas.

*Toledo Bend*

The Toledo Bend field in Desoto Parish, Louisiana was discovered in 2008 with our first horizontal Haynesville Shale well. The discovery well is producing from the lower Haynesville Shale at 11,300 feet. Our proved reserves of 10.1 Bcfe in the Toledo Bend field represent approximately 1.7% of our reserves. We have one producing operated well (0.9 net to us) in this field. During December 2008, net daily production attributable to our interest from this field averaged 3.6 MMcf/day of natural gas. In 2009, we plan to drill seven horizontal Haynesville Shale wells in this field.

*Cadeville*

Our proved reserves of 9.7 Bcfe in the Cadeville field located in Ouachita Parrish, Louisiana represent approximately 1.7% of our reserves. We own interests in seven wells (3.5 net to us) and operate five of these wells. During December 2008, net daily production attributable to our interest from this field averaged 0.4 MMcf of natural gas and 3 barrels of oil. This production is primarily from the Cotton Valley formation between 9,800 and 10,700 feet.

*Drew*

Our proved reserves of 5.7 Bcfe in the Drew field located in Ouachita Parrish, Louisiana represent approximately 1.0% of our total reserves. Production from this field is from the Cotton Valley formation between 9,000 and 9,600 feet. We own interests in eight wells (5.1 net to us) and operate six of these wells. During December 2008, net daily production attributable to our interest from this field averaged 0.6 MMcf of natural gas and 5 barrels of oil.

**South Texas Region**

Approximately 35.3%, or 205.1 Bcfe, of our proved reserves are located in South Texas, where we own interests in 241 producing wells (131.0 net to us). We own interests in 15 field areas in the region, the largest of which are the Fandango, Double A Wells, Rosita, Las Hermanitas, Javelina and Sugar Creek fields. Net

daily production rates from this region averaged 58.8 MMcf of natural gas and 489 barrels of oil during 2008. We spent \$84.5 million in this region in 2008 to drill 18 wells (13.4 net to us) and for other development activity. In 2009, we plan to spend approximately \$47.0 million for development and exploration activity in this region.

*Fandango*

We own interests in 20 natural gas wells (20.0 net to us) in the Fandango field, located in Zapata County, Texas. We operate all of these wells which produce from the Wilcox formation at depths from approximately 13,000 to 18,000 feet. Our proved reserves of 52.3 Bcfe in this field represent approximately 9.0% of our reserves. Production from this field averaged 11.9 MMcf of natural gas per day during December 2008. We acquired interests in the 20 producing wells in the Shell Wilcox acquisition in December 2007 and drilled one successful exploration well in 2008.

*Double A Wells*

Our properties in the Double A Wells field have proved reserves of 50.9 Bcfe, which represent 8.8% of our reserves. We own interests in and operate 61 producing wells (29.7 net to us) in this field in Polk County, Texas. Net daily production from the Double A Wells area averaged 6.8 MMcf of natural gas and 215 barrels of oil during December 2008. These wells produce from the Woodbine formation at an average depth of 14,300 feet.

*Rosita*

We own interests in 32 natural gas wells (17.3 net to us) in the Rosita field, located in Duval County, Texas. We operate three of these wells which produce from the Wilcox formation at depths from approximately 9,300 to 17,000 feet. Our proved reserves of 32.7 Bcfe in this field represent approximately 5.6% of our reserves. Production from this field averaged 6.0 MMcf of natural gas per day during December 2008. We acquired our interest in the field in the Shell Wilcox acquisition in December 2007.

*Las Hermanitas*

We own interests in and operate 16 natural gas wells (16.0 net to us) in the Las Hermanitas field, located in Duval County, Texas. These wells produce from the Wilcox formation at depths from approximately 11,400 to 11,800 feet. Our proved reserves of 23.4 Bcfe in this field represent approximately 4.0% of our proved reserves. During December 2008, net daily production attributable to our interest from this field averaged 12.5 MMcf of natural gas. We acquired interest in five producing wells in 2006 and have subsequently drilled eleven successful wells in this field since the acquisition.

*Javelina*

We own interests in 17 natural gas wells and one oil well, 18.0 net to us, in the Javelina field in Hidalgo County in South Texas. During 2008, we drilled six (6.0 net to us) wells in this field. These wells produce primarily from the Vicksburg formation at a depth of approximately 10,900 to 12,500 feet. Proved reserves attributable to our interests in the Javelina field are 20.3 Bcfe, which represents 3.5% of our reserve base. During December 2008, production attributable to our interest from this field averaged 8.6 MMcf of natural gas per day and 50 barrels of oil per day.

*Sugar Creek*

Our proved reserves of 9.6 Bcfe in the Sugar Creek field located in Tyler County, Texas represent approximately 1.6% of our reserves. We own interests in four wells (2.6 net to us) and operate two of these wells. During December 2008, net daily production attributable to our interest from this field averaged 0.5 MMcf of natural gas and 5 barrels of oil.

**Other Regions**

Approximately 14.4%, or 83.9 Bcfe, of our proved reserves are in other regions, primarily in Mississippi, New Mexico, Kentucky and the Mid-Continent regions. Within these regions we own interests in 515 producing wells (223.4 net to us) in 21 fields. Fields with the largest proved reserves include the Laurel field in Laurel, Mississippi, our New Albany Shale Gas properties in Kentucky, our San Juan Basin properties in New Mexico and our Southwest Morse field in the Texas Panhandle. Net daily production from our other regions totaled 8.3 MMcf of natural gas and 1,455 barrels of oil during 2008. We drilled three wells (0.5 net to us) on these properties in 2008.

*Laurel*

The Laurel field is located in Jones County, Mississippi near a structurally complex salt dome. We own interests in and operate 51 producing wells (48.1 net to us) in the Laurel field. This field's estimated proved reserves of 34.5 Bcfe represent 5.9% of our reserves. The field produces from more than 42 horizons that range in depth from 6,600 feet in the Stanley sand to 13,100 feet in the Middle Hosston formation. Recovery of low viscosity crude oil from this field is being enhanced through waterflood operations. During December 2008, net daily production attributable to our interests in this field averaged 1,171 barrels of oil per day.

*Kentucky*

Our New Albany Shale Gas properties are located in north central Kentucky. Gas is produced from fractured Devonian New Albany Shale. The New Albany is generally about 100 feet in thickness and is found at approximately 850 feet from the surface. Our proved reserves of 11.1 Bcfe in the New Albany Shale Gas field represent approximately 1.9% of our reserves. We own interests in and operate 88 wells (78.4 net to us) in this area. During December 2008, net daily production attributable to our interest from this field averaged 0.7 MMcf of natural gas.

*San Juan*

Our San Juan Basin properties are located in the west-central portion of the basin in San Juan County, New Mexico. These wells produce from multiple sands of the Cretaceous Dakota formation and the Fruitland Coal seams. The Dakota is generally found at about 6,000 feet with the shallower Fruitland seams encountered at 2,500 to 3,000 feet. Our proved reserves of 10.6 Bcfe in the San Juan field represent approximately 1.8% of our reserves. We own interests in 99 wells (14.6 net to us). During December 2008, net daily production attributable to our interest from this field averaged 1.1 MMcf of natural gas and 4 barrels of oil.

*Southwest Morse*

Located in Hutchinson County, Texas, the Southwest Morse field is situated on the edge of the greater Hugoton Field producing complex. Production is from the structurally trapped, underpressured Brown Dolomite formation. The Brown Dolomite reservoir is typically encountered at depths of 2,900 to 3,400 feet.

Our proved reserves of 5.3 Bcfe in the Southwest Morse field represent approximately 0.9% of our reserves. We own interests in 39 wells (38.1 net to us) and operate 38 of these wells. During December 2008, net daily production attributable to our interest from this field averaged 0.9 MMcf of natural gas.

### **Major Property Acquisitions**

As a result of our acquisitions, we have added 984.1 Bcfe of proved oil and natural gas reserves since 1991. Our largest acquisitions include the following:

*Shell Wilcox Acquisition.* In December 2007, we completed the acquisition of certain oil and natural gas properties and related assets from SWEPI LP, an affiliate of Shell Oil Company ("Shell") for \$160.1 million. The properties acquired had estimated proved reserves of approximately 70.1 Bcfe. Major fields acquired in the acquisition include the Fandango and Rosita fields. The acquisition was funded with borrowings under our bank credit facility.

*Javelina Acquisition.* In June 2007 we acquired additional working interests in oil and gas properties in the Javelina field in South Texas from Abaco Operating LLC for \$31.2 million. The properties acquired had estimated proved reserves of approximately 9.1 Bcfe. The transaction was funded with borrowings under our bank credit facility.

*Denali Acquisition.* In September 2006 we acquired proved and unproved oil and gas properties in the Las Hermanitas field in South Texas from Denali Oil & Gas Partners LP and other working interest owners for \$67.2 million. The properties acquired had estimated proved reserves of approximately 16.5 Bcfe. The transaction was funded with borrowings under our bank credit facility.

*Ensign Acquisition.* In May 2005, we completed the acquisition of certain oil and natural gas properties and related assets from Ensign Energy Partners, L.P., Laurel Production, LLC, Fairfield Midstream Services, LLC and Ensign Energy Management, LLC (collectively, "Ensign") for \$190.9 million. We also purchased additional interests in those properties from other owners for \$10.9 million in July 2005. The properties acquired had estimated proved reserves of approximately 121.5 billion cubic feet of natural gas equivalent and included 312 active wells, of which 119 are operated by us. Major fields acquired include the Darco, Douglass, Cadeville, and Laurel fields. The acquisition was funded with proceeds from a public stock offering completed in April 2005 and borrowings under our bank credit facility.

*Ovation Energy Acquisition.* In October 2004, we acquired producing oil and gas properties in the East Texas, Arkoma, Anadarko and San Juan basins from Ovation Energy, L.P. for \$62.0 million. The properties acquired had estimated proved reserves of approximately 41.0 billion cubic feet of gas equivalent and include 165 active wells, of which 69 are operated by us. The acquisition was funded by borrowings under our bank credit facility.

*DevX Energy Acquisition.* In December 2001, we completed the acquisition of DevX Energy, Inc. ("DevX") by acquiring 100% of the common stock of DevX for \$92.6 million. The total purchase price including debt and other liabilities assumed in the acquisition was \$160.8 million. As a result of the acquisition of DevX, we acquired interests in 600 producing oil and natural gas wells located onshore primarily in East and South Texas, Kentucky, Oklahoma and Kansas. DevX's properties had 1.2 MMBbls of oil reserves and 156.5 Bcf of natural gas reserves at the time of the acquisition. We divested of the properties in East and South Texas acquired from DevX in 2008.

*Bois d'Arc Acquisition.* In December 1997, Comstock 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. We acquired interests in 43 wells (29.6 net to us) 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 Block 21, Ship Shoal Blocks 66, 67, 68 and 69 and South Pelto Block 1. The net proved reserves acquired in this acquisition were estimated at 14.3 MMBbls of oil and 29.4 Bcf of natural gas. We divested of these offshore properties in 2008.

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

*Sonat Acquisition.* In July 1995, we purchased interests in certain producing oil and gas properties located in East Texas and North Louisiana from Sonat Inc. for \$48.1 million. We acquired interests in 319 producing wells (188.0 net to us). The acquisition included interests in the Logansport, Beckville, Waskom, Blocker and Hico-Knowles fields. The net proved reserves acquired in this acquisition 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 our estimated proved oil and natural gas reserves and the PV 10 Value as of December 31, 2008:

	Oil (MMbbls)	Gas (MMcf)	Total (MMcfe)	PV 10 Value (000's)
Proved Developed:				
Producing	3,717	281,615	303,920	\$ 613,889
Non-producing	1,729	73,319	83,692	122,558
Proved Undeveloped	4,222	168,709	194,041	83,663
<b>Total Proved</b>	<u>9,668</u>	<u>523,643</u>	<u>581,653</u>	820,110
Discounted Future Income Taxes				(183,819)
<b>Standardized Measure of Discounted Future Net Cash Flows(1)</b>				<u>\$ 636,291</u>

(1) The PV 10 Value represents the discounted future net cash flows attributable to our proved oil and gas reserves before income tax, discounted at 10%. Although it is a non-GAAP measure, we believe that the presentation of the PV 10 Value is relevant and useful to our investors because it presents the discounted future net cash flows attributable to our proved reserves prior to taking into account corporate future income taxes and our current tax structure. We use this measure when assessing the potential return on investment related to our oil and gas properties. The standardized measure of discounted future net cash flows represents the present value of future cash flows attributable to our proved oil and natural gas reserves after income tax, discounted at 10%.

Proved oil and gas reserves are 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). Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are 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.



The PV 10 Value and standardized measure of discounted future net cash flows was determined based on the market prices for oil and natural gas on December 31, 2008. The market price for our oil production on December 31, 2008, after basis adjustments, was \$34.49 per barrel as compared to \$81.36 per barrel on December 31, 2007. The market price received for our natural gas production on December 31, 2008, after basis adjustments, was \$5.33 per Mcf as compared to \$6.70 per Mcf on December 31, 2007.

We did not provide estimates of total proved oil and natural gas reserves during the years ended December 31, 2006, 2007 or 2008 to any federal authority or agency, other than the Securities and Exchange Commission.

**Drilling Activity Summary**

During the three-year period ended December 31, 2008, we drilled development and exploratory wells as set forth in the table below.

	2006		2007		2008	
	Gross	Net	Gross	Net	Gross	Net
Development:						
Oil	8	7.6	5	4.8	—	—
Gas	105	75.9	152	115.7	127	71.5
Dry	4	2.2	3	2.6	3	1.0
	<u>117</u>	<u>85.7</u>	<u>160</u>	<u>123.1</u>	<u>130</u>	<u>72.5</u>
Exploratory:						
Oil	—	—	—	—	—	—
Gas	3	2.0	1	0.6	5	2.7
Dry	2	2.0	4	2.5	1	0.5
	<u>5</u>	<u>4.0</u>	<u>5</u>	<u>3.1</u>	<u>6</u>	<u>3.2</u>
Total	<u>122</u>	<u>89.7</u>	<u>165</u>	<u>126.2</u>	<u>136</u>	<u>75.7</u>

In 2009 to the date of this report, we have drilled seven wells (5.3 net to us), all of which have been successful. As of the date of this report, we have nine wells (7.2 net to us) that we are in the process of drilling.

**Producing Well Summary**

The following table sets forth the gross and net producing oil and natural gas wells in which we owned an interest at December 31, 2008:

	Oil		Gas	
	Gross	Net	Gross	Net
Arkansas	—	—	15	8.0
Kansas	—	—	12	4.5
Kentucky	—	—	88	78.4
Louisiana	5	2.3	374	188.0
Mississippi	61	51.0	2	0.9
New Mexico	—	—	99	14.6
Oklahoma	3	0.5	137	19.7
Texas	37	19.6	828	506.5
Wyoming	—	—	32	2.4
Total	<u>106</u>	<u>73.4</u>	<u>1,587</u>	<u>823.0</u>

We operate 937 of the 1,693 producing wells presented in the above table. As of December 31, 2008, we owned interests in 19 wells containing multiple completions, which means that a well is producing from more than one completed zone. Wells with more than one completion are reflected as one well in the table above.

**Acreage**

The following table summarizes our developed and undeveloped leasehold acreage at December 31, 2008, all of which is onshore in the continental United States. We have excluded acreage in which our interest is limited to a royalty or overriding royalty interest.

	Developed		Undeveloped	
	Gross	Net	Gross	Net
Arkansas	1,280	684	—	—
Kansas	6,400	4,064	—	—
Kentucky	7,206	5,773	664	664
Louisiana	103,063	66,750	41,345	34,072
Mississippi	5,229	2,440	16,981	13,141
New Mexico	7,120	697	—	—
Oklahoma	38,080	5,707	—	—
Texas	232,254	149,793	46,076	16,988
Wyoming	13,440	927	—	—
Total	<u>414,072</u>	<u>236,835</u>	<u>105,066</u>	<u>64,865</u>

Our undeveloped acreage expires as follows:

Expires in 2009	20%
Expires in 2010	34%
Expires in 2011	46%
	<u>100%</u>

Title to our 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 our oil and natural gas properties are pledged as collateral under our bank credit facility. As is customary in the oil and gas industry, we are generally able to retain our 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 us depends on factors beyond our 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.

Our oil production is sold at prices tied to the spot oil markets. Our natural gas production is primarily sold under short-term contracts and priced on first of the month index prices or on daily spot market prices. Approximately 80% of our 2008 natural gas sales were priced utilizing index prices and approximately 20%

were priced utilizing daily spot prices. Shell Oil Company and its subsidiaries, BP Energy Company and Louis Dreyfus Energy Services, LP accounted for 14%, 12% and 11%, respectively, of our total 2008 sales. The loss of these customers would not have a material adverse effect on us as there is an available market for our crude oil and natural gas production from other purchasers.

### **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 we do. We face intense competition for the acquisition of oil and natural gas properties and leases for oil and gas exploration.

### **Regulation**

*General.* Various aspects of our oil and natural gas operations are subject to extensive and continually changing regulation, as legislation affecting the oil and natural gas industry is under constant review for amendment or expansion. Numerous departments and agencies, both federal and state, are authorized by statute to issue, and have issued, rules and regulations binding upon the oil and natural gas industry and its individual members. The Federal Energy Regulatory Commission, or "FERC," regulates the transportation and sale for resale of natural gas in interstate commerce pursuant to the Natural Gas Act of 1938, or "NGA," and the Natural Gas Policy Act of 1978, or "NGPA." In 1989, however, Congress enacted the Natural Gas Wellhead Decontrol Act, which removed all remaining price and nonprice controls affecting all "first sales" of natural gas, effective January 1, 1993, subject to the terms of any private contracts that may be in effect. While sales by producers of natural gas and all sales of crude oil, condensate and natural gas liquids can currently be made at uncontrolled market prices, in the future Congress could reenact price controls or enact other legislation with detrimental impact on many aspects of our business. Under the provisions of the Energy Policy Act of 2005 (the "2005 Act"), the NGA has been amended to prohibit any form of market manipulation with the purchase or sale of natural gas, and the FERC has issued new regulations that are intended to increase natural gas pricing transparency. The 2005 Act has also significantly increased the penalties for violations of the NGA.

*Regulation and transportation of natural gas.* Our sales of natural gas are affected by the availability, terms and cost of transportation. The price and terms for access to pipeline transportation are subject to extensive regulation. In recent years, the FERC has undertaken various initiatives to increase competition within the natural gas industry. As a result of initiatives like FERC Order No. 636, issued in April 1992, the interstate natural gas transportation and marketing system has been substantially restructured to remove various barriers and practices that historically limited non-pipeline natural gas sellers, including producers, from effectively competing with interstate pipelines for sales to local distribution companies and large industrial and commercial customers. The most significant provisions of Order No. 636 require that interstate pipelines provide firm and interruptible transportation service on an open access basis that is equal for all natural gas supplies. In many instances, the results of Order No. 636 and related initiatives have been to substantially reduce or eliminate the traditional role of interstate pipelines as wholesalers of natural gas in favor of providing storage and transportation services.

In 2000, the FERC issued Order No. 637 and subsequent orders, which imposed additional reforms designed to enhance competition in natural gas markets. Among other things, Order No. 637 revised the FERC's pricing policy by waiving price ceilings for short-term released capacity for an experimental period, and effected changes in the FERC regulations relating to scheduling procedures, capacity segmentation, penalties, rights of first refusal and information reporting. While most major aspects of Order No. 637 have been upheld on judicial review, certain issues such as capacity segmentation and right of first refusal are

pending further consideration by the FERC. We cannot predict what action the FERC will take on these matters in the future or whether the FERC's actions will survive further judicial review.

Intrastate natural gas regulation is subject to regulation by state regulatory agencies. The Texas Railroad Commission has been changing its regulations governing transportation and gathering services provided by intrastate pipelines and gatherers. While the changes by these state regulators affect us only indirectly, they are intended to further enhance competition in natural gas markets. We cannot predict what further action the FERC or state regulators will take on these matters; however, we do not believe that we will be affected differently than other natural gas producers with which we compete by any action taken.

Additional proposals and proceedings that might affect the natural gas industry are pending before Congress, the FERC, state commissions and the courts. The natural gas industry historically has been very heavily regulated; therefore, there is no assurance that the less stringent regulatory approach recently pursued by the FERC, Congress and state regulatory authorities will continue.

*Federal leases.* Some of our operations are located on federal oil and natural gas leases that are administered by the Bureau of Land Management ("BLM") of the United States Department of the Interior. These leases are issued through competitive bidding and contain relatively standardized terms. These leases require compliance with detailed Department of Interior and BLM regulations and orders that are subject to interpretation and change. These leases are also subject to certain regulations and orders promulgated by the Department of Interior's Minerals Management Service ("MMS"), through its Minerals Revenue Management Program, which is responsible for the management of revenues from both onshore and offshore leases. Additionally, some of our federal leases are subject to the Indian Mineral Development Act of 1982, and are therefore subject to supplemental regulations and orders of the Department of Interior's Bureau of Indian Affairs. While we cannot predict how various federal agencies may change their interpretations of existing regulations and orders or how regulations and orders issued in the future will impact our operations located on these federal leases, we do not believe we will be affected differently than other similarly situated oil and natural gas producers.

*Oil and Natural Gas Liquids Transportation Rates.* Our sales of crude oil, condensate and natural gas liquids are not currently regulated and are made at market prices. In a number of instances, however, the ability to transport and sell such products is dependent on pipelines whose rates, terms and conditions of service are subject to FERC jurisdiction under the Interstate Commerce Act. In other instances, the ability to transport and sell such products is dependent on pipelines whose rates, terms and conditions of service are subject to regulation by state regulatory bodies under state statutes. The price received from the sale of these products may be affected by the cost of transporting the products to market.

The regulation of pipelines that transport crude oil, condensate and natural gas liquids is generally more light-handed than the FERC's regulation of natural gas pipelines under the NGA. Regulated pipelines that transport crude oil, condensate and natural gas liquids are subject to common carrier obligations that generally ensure non-discriminatory access. With respect to interstate pipeline transportation subject to regulation of the FERC under the Interstate Commerce Act, rates generally must be cost-based, although market-based rates or negotiated settlement rates are permitted in certain circumstances. Pursuant to FERC Order No. 561, issued in October 1993, the FERC implemented regulations generally grandfathering all previously unchallenged interstate pipeline rates and made these rates subject to an indexing methodology. Under this indexing methodology, pipeline rates are subject to changes in the Producer Price Index for Finished Goods, minus one percent. A pipeline can seek to increase its rates above index levels provided that the pipeline can establish that there is a substantial divergence between the actual costs experienced by the pipeline and the rate resulting from application of the index. A pipeline can seek to charge a market-based rate if it establishes that it lacks significant market power. In addition, a pipeline can establish rates pursuant to settlement if agreed upon by all current shippers. A pipeline can seek to establish initial rates for new

services through a cost-of-service proceeding, a market-based rate proceeding, or through an agreement between the pipeline and at least one shipper not affiliated with the pipeline. As provided for in Order No. 561, in July 2000, the FERC issued a Notice of Inquiry seeking comment on whether to retain or to change the existing oil rate-indexing method. In December 2000, the FERC issued an order concluding that the rate index reasonably estimated the actual cost changes in the pipeline industry and should be continued for another five-year period, subject to review in July 2005. In February 2003, on remand of its December 2000 order from the D.C. Circuit, the FERC increased its index slightly. A challenge to FERC's remand order was denied by the D.C. Circuit in April 2004.

With respect to intrastate crude oil, condensate and natural gas liquids pipelines subject to the jurisdiction of state agencies, such state regulation is generally less rigorous than the regulation of interstate pipelines. State agencies have generally not investigated or challenged existing or proposed rates in the absence of shipper complaints or protests. Complaints or protests have been infrequent and are usually resolved informally.

We do not believe that the regulatory decisions or activities relating to interstate or intrastate crude oil, condensate or natural gas liquids pipelines will affect us in a way that materially differs from the way it affects other crude oil, condensate and natural gas liquids producers or marketers.

*Environmental regulations.* We are subject to stringent federal, state and local laws. These laws, among other things, govern the issuance of permits to conduct exploration, drilling and production operations, the amounts and types of materials that may be released into the environment, the discharge and disposition of waste materials, the remediation of contaminated sites and the reclamation and abandonment of wells, sites and facilities. Numerous governmental departments issue rules and regulations to implement and enforce such laws, which are often difficult and costly to comply with and which carry substantial civil and even criminal penalties for failure to comply. Some laws, rules and regulations relating to protection of the environment may, in certain circumstances, impose strict liability for environmental contamination, rendering a person liable for environmental damages and cleanup cost without regard to negligence or fault on the part of such person. Other laws, rules and regulations may restrict the rate of oil and natural gas production below the rate that would otherwise exist or even prohibit exploration and production activities in sensitive areas. In addition, state laws often require various forms of remedial action to prevent pollution, such as closure of inactive pits and plugging of abandoned wells. The regulatory burden on the oil and natural gas industry increases our cost of doing business and consequently affects our profitability. These costs are considered a normal, recurring cost of our on-going operations. Our domestic competitors are generally subject to the same laws and regulations.

We believe that we are in substantial compliance with current applicable environmental laws and regulations and that continued compliance with existing requirements will not have a material adverse impact on our operations. However, environmental laws and regulations have been subject to frequent changes over the years, and the imposition of more stringent requirements or new regulatory schemes such as carbon "cap and trade" programs could have a material adverse effect upon our capital expenditures, earnings or competitive position, including the suspension or cessation of operations in affected areas. As such, there can be no assurance that material cost and liabilities will not be incurred in the future.

The Comprehensive Environmental Response, Compensation and Liability Act, or "CERCLA," imposes liability, without regard to fault, on certain classes of persons that are considered to be responsible for the release of a "hazardous substance" into the environment. These persons include the current or former owner or operator of the disposal site or sites where the release occurred and companies that disposed or arranged for the disposal of hazardous substances. Under CERCLA, such persons may be subject to joint and several liability for the cost of investigating and cleaning up hazardous substances that have been released into the environment, for damages to natural resources and for the cost of certain health studies. In

addition, companies that incur liability frequently also confront third party claims because it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment from a polluted site.

The Federal Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, or "RCRA," regulates the generation, transportation, storage, treatment and disposal of hazardous wastes and can require cleanup of hazardous waste disposal sites. RCRA currently excludes drilling fluids, produced waters and other wastes associated with the exploration, development or production of oil and natural gas from regulation as "hazardous waste." Disposal of such non-hazardous oil and natural gas exploration, development and production wastes usually are regulated by state law. Other wastes handled at exploration and production sites or used in the course of providing well services may not fall within this exclusion. Moreover, stricter standards for waste handling and disposal may be imposed on the oil and natural gas industry in the future. From time to time, legislation is proposed in Congress that would revoke or alter the current exclusion of exploration, development and production wastes from RCRA's definition of "hazardous wastes," thereby potentially subjecting such wastes to more stringent handling, disposal and cleanup requirements. If such legislation were enacted, it could have a significant impact on our operating cost, as well as the oil and natural gas industry in general. The impact of future revisions to environmental laws and regulations cannot be predicted.

Our operations are also subject to the Clean Air Act, or "CAA," and comparable state and local requirements. Amendments to the CAA were adopted in 1990 and contain provisions that may result in the gradual imposition of certain pollution control requirements with respect to air emissions from our operations. We may be required to incur certain capital expenditures in the future for air pollution control equipment in connection with obtaining and maintaining operating permits and approvals for air emissions. However, we believe our operations will not be materially adversely affected by any such requirements, and the requirements are not expected to be any more burdensome to us than to other similarly situated companies involved in oil and natural gas exploration and production activities.

The Federal Water Pollution Control Act of 1972, as amended, or the "Clean Water Act," imposes restrictions and controls on the discharge of produced waters and other wastes into navigable waters. Permits must be obtained to discharge pollutants into state and federal waters and to conduct construction activities in waters and wetlands. Certain state regulations and the general permits issued under the Federal National Pollutant Discharge Elimination System program prohibit the discharge of produced waters and sand, drilling fluids, drill cuttings and certain other substances related to the oil and natural gas industry into certain coastal and offshore waters, unless otherwise authorized. Further, the EPA has adopted regulations requiring certain oil and natural gas exploration and production facilities to obtain permits for storm water discharges. Costs may be associated with the treatment of wastewater or developing and implementing storm water pollution prevention plans. The Clean Water Act and comparable state statutes provide for civil, criminal and administrative penalties for unauthorized discharges for oil and other pollutants and impose liability on parties responsible for those discharges for the cost of cleaning up any environmental damage caused by the release and for natural resource damages resulting from the release. We believe that our operations comply in all material respects with the requirements of the Clean Water Act and state statutes enacted to control water pollution.

Federal regulators require certain owners or operators of facilities that store or otherwise handle oil to prepare and implement spill prevention, control, countermeasure and response plans relating to the possible discharge of oil into surface waters. The Oil Pollution Act of 1990 ("OPA") contains numerous requirements relating to the prevention and response to oil spills in the waters of the United States. The OPA subjects owners of facilities to strict joint and several liability for all containment and cleanup costs and certain other

damages relating to a spill. Noncompliance with OPA may result in varying civil and criminal penalties and liabilities.

Executive Order 13158, issued on May 26, 2000, directs federal agencies to safeguard existing Marine Protected Areas, or "MPAs," in the United States and establish new MPAs. The order requires federal agencies to avoid harm to MPAs to the extent permitted by law and to the maximum extent practicable. It also directs the EPA to propose new regulations under the Clean Water Act to ensure appropriate levels of protection for the marine environment. This order has the potential to adversely affect our operations by restricting areas in which we may carry out future exploration and development projects and/or causing us to incur increased operating expenses.

Certain flora and fauna that have officially been classified as "threatened" or "endangered" are protected by the Endangered Species Act. This law prohibits any activities that could "take" a protected plant or animal or reduce or degrade its habitat area. If endangered species are located in an area we wish to develop, the work could be prohibited or delayed and/or expensive mitigation might be required.

Other statutes that provide protection to animal and plant species and which may apply to our operations include, but are not necessarily limited to, the National Environmental Policy Act, the Coastal Zone Management Act, the Oil Pollution Act, the Emergency Planning and Community Right-to-Know Act, the Marine Mammal Protection Act, the Marine Protection, Research and Sanctuaries Act, the Fish and Wildlife Coordination Act, the Fishery Conservation and Management Act, the Migratory Bird Treaty Act and the National Historic Preservation Act. These laws and regulations may require the acquisition of a permit or other authorization before construction or drilling commences and may limit or prohibit construction, drilling and other activities on certain lands lying within wilderness or wetlands and other protected areas and impose substantial liabilities for pollution resulting from our operations. The permits required for our various operations are subject to revocation, modification and renewal by issuing authorities.

We maintain insurance against "sudden and accidental" occurrences, which may cover some, but not all, of the risks described above. Most significantly, the insurance we maintain will not cover the risks described above which occur over a sustained period of time. Further, there can be no assurance that such insurance will continue to be available to cover all such cost or that such insurance will be available at a cost that would justify its purchase. The occurrence of a significant event not fully insured or indemnified against could have a material adverse effect on our financial condition and results of operations.

*Regulation of oil and natural gas exploration and production.* Our exploration and production operations are subject to various types of regulation at the federal, state and local levels. Such regulations include requiring permits and drilling bonds for the drilling of wells, regulating the location of wells, the method of drilling and casing wells and the surface use and restoration of properties upon which wells are drilled. Many 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 natural gas wells and the regulation of spacing, plugging and abandonment of such wells. Some state statutes limit the rate at which oil and natural gas can be produced from our properties.

*State Regulation.* Most states regulate the production and sale of oil and natural gas, including requirements for obtaining drilling permits, the method of developing new fields, the spacing and operation of wells and the prevention of waste of oil and gas resources. The rate of production may be regulated and the maximum daily production allowable from both oil and gas wells may be established on a market demand or conservation basis or both.

## Office and Operations Facilities

Our executive offices are located at 5300 Town and Country Blvd., Suite 500 in Frisco, Texas 75034 and our telephone number is (972) 668-8800. We lease office space in Frisco, Texas covering 51,386 square feet at a monthly rate of \$96,330. This lease expires on July 31, 2014. We also own production offices and pipe yard facilities near Marshall, Livingston, and Zapata, Texas; Logansport, Louisiana; Guston, Kentucky and Laurel, Mississippi.

## Employees

As of December 31, 2008, we had 135 employees and utilized contract employees for certain of our field operations. We consider our employee relations to be satisfactory.

## Directors and Executive Officers

The following table sets forth certain information concerning our executive officers and directors.

Name	Position with Company	Age
M. Jay Allison	President, Chief Executive Officer and Chairman of the Board of Directors	53
Roland O. Burns	Senior Vice President, Chief Financial Officer, Secretary, Treasurer and Director	48
D. Dale Gillette	Vice President of Land and General Counsel	63
Mack D. Good	Chief Operating Officer	58
Stephen E. Neukom	Vice President of Marketing	59
Daniel K. Presley	Vice President of Accounting and Controller	48
Richard D. Singer	Vice President of Financial Reporting	54
David K. Lockett	Director	54
Cecil E. Martin	Director	67
David W. Sledge	Director	52
Nancy E. Underwood	Director	57

### Executive Officers

A brief biography of each person who serves as a director or executive officer follows below.

**M. Jay Allison** has been a director since June 1987, and our President and Chief Executive Officer since 1988. Mr. Allison was elected Chairman of the board of directors in 1997. From 1987 to 1988, Mr. Allison served as our Vice President and Secretary. From 1981 to 1987, he was a practicing oil and gas attorney with the firm of Lynch, Chappell & Alsop in Midland, Texas. Mr. Allison was Chairman of the Board of Directors of Bois d'Arc Energy, Inc. from the time of its formation in 2004 until its merger with Stone Energy Corporation in August 2008. He received B.B.A., M.S. and J.D. degrees from Baylor University in 1978, 1980 and 1981, respectively. Mr. Allison also currently serves as a Director of Tidewater Marine, Inc., and on the Advisory Board of the Salvation Army in Dallas, Texas.

**Roland O. Burns** has been our Senior Vice President since 1994, Chief Financial Officer and Treasurer since 1990, our Secretary since 1991 and a director since 1999. From 1982 to 1990, Mr. Burns was employed by the public accounting firm, Arthur Andersen. During his tenure with Arthur Andersen, Mr. Burns worked primarily in the firm's oil and gas audit practice. Mr. Burns was a director, Senior Vice President and the Chief Financial Officer of Bois d'Arc Energy, Inc. from the time of its formation in 2004.



until its merger with Stone Energy Corporation in August 2008. Mr. Burns received B.A. and M.A. degrees from the University of Mississippi in 1982 and is a Certified Public Accountant.

**D. Dale Gillette** joined us as Vice President of Land and General Counsel in September 2006. Prior to joining us, Mr. Gillette practiced law extensively in the energy sector for 32 years, most recently as a partner with Gardere Wynne Sewell LLP, and before that with Locke Liddell & Sapp LLP. During that time he represented independent exploration and production companies and large financial institutions in numerous oil and gas transactions. Mr. Gillette has also served as corporate counsel in the legal department of Mesa Petroleum Co. and in the legal department of Enserch Corp. Mr. Gillette holds B.A. and J.D. degrees from the University of Texas and is a member of the State Bar of Texas.

**Mack D. Good** was appointed our Chief Operating Officer in 2004. From 1999 to 2004, he served as Vice President of Operations. From August 1997 until February 1999, Mr. Good served as our district engineer for the East Texas/North Louisiana region. From 1983 until July 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 our Vice President of Marketing since December 1997 and has served as our 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., our former wholly owned gas marketing subsidiary. Prior to joining us, 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.

**Daniel K. Presley** has been our Vice President of Accounting since December 1997 and has been with us since December 1989, serving as controller since 1991. Prior to joining us, 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 received a B.B.A. from Texas A & M University in 1983.

**Richard D. Singer** joined us in June 2005 as Vice President of Financial Reporting. Mr. Singer has over 30 years of experience in financial accounting and reporting. Prior to joining us, Mr. Singer most recently served as an assistant controller for Holly Corporation from March 2004 to May 2005 and as assistant controller for Santa Fe International Corporation from July 1988 to December 2002. Mr. Singer received a B.S. degree from the Pennsylvania State University in 1976 and is a Certified Public Accountant.

#### **Outside Directors**

**David K. Lockett** has served as a director since July 2001. Mr. Lockett is a Vice President with Dell Inc. and has held executive management positions in several divisions within Dell since 1991. Mr. Lockett has been employed by Dell Inc. for the past 17 years and has been in the technology industry for the past 32 years. Mr. Lockett was a director of Bois d'Arc Energy, Inc. from May 2005 until its merger with Stone Energy Corporation in August 2008. Mr. Lockett received a B.B.A. degree from Texas A&M University in 1976.

**Cecil E. Martin** has served as a director since October 1989. Mr. Martin is an independent commercial real estate investor who has primarily been managing his personal real estate investments since 1991. From 1973 to 1991, he also served as chairman of a public accounting firm in Richmond, Virginia. Mr. Martin was a director and chairman of the Audit Committee of Bois d'Arc Energy, Inc. from May 2005 until its merger with Stone Energy Corporation in August 2008. Mr. Martin also serves on the board of directors of Crosstex

Energy, Inc. and Crosstex Energy, L.P. Mr. Martin holds a B.B.A. degree from Old Dominion University and is a Certified Public Accountant.

**David W. Sledge** has served as a director since May 1996. Mr. Sledge was President and Chief Operating Officer of Sledge Drilling Company until it was acquired by Basic Energy Services, Inc. in April 2007 and served as a Vice President of Basic Energy Services, Inc. from April 2007 to February 2009. He served as an area operations manager for Patterson-UTI Energy, Inc. from May 2004 until January 2006. From October 1996 until May 2004, Mr. Sledge managed his personal investments in oil and gas exploration activities. Mr. Sledge was a Director of Bois d' Arc Energy, Inc. from May 2005 until its merger with Stone Energy Corporation in August 2008. 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.

**Nancy E. Underwood** has served as a director since 2004. Ms. Underwood is owner and President of Underwood Financial Ltd., a position she has held since 1986. Ms. Underwood holds B.S. and J.D. degrees from Emory University and practiced law at an Atlanta, Georgia based law firm before joining River Hill Development Corporation in 1981. Ms. Underwood currently serves on the Executive Board and Campaign Steering Committee of the Southern Methodist University Dedman School of Law and on the board of the Presbyterian Hospital of Dallas Foundation.

#### **Available Information**

Our executive offices are located at 5300 Town and Country Blvd., Suite 500, Frisco, Texas 75034. Our telephone number is (972) 668-8800. We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website that contains reports, proxy and information statements, and other information that is electronically filed with the SEC. The public can obtain any documents that we file with the SEC at [www.sec.gov](http://www.sec.gov). We also make available free of charge on our website ([www.comstockresources.com](http://www.comstockresources.com)) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we file such material with, or furnish it to, the SEC.

#### **ITEM 1A. RISK FACTORS**

You should carefully consider the following risk factors as well as the other information contained or incorporated by reference in this report, as these important factors, among others, could cause our actual results to differ from our expected or historical results. It is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete statement of all of our potential risks or uncertainties.

***A substantial or extended decline in oil and natural gas prices may adversely affect our business, financial condition, cash flow, liquidity or results of operations and our ability to meet our capital expenditure obligations and financial commitments and to implement our business strategy.***

Our business is heavily dependent upon the prices of, and demand for, oil and natural gas. Historically, the prices for oil and natural gas have been volatile and are likely to remain volatile in the future. The prices

we receive for our oil and natural gas production and the level of such production will be subject to wide fluctuations and depend on numerous factors beyond our control, including the following:

- the domestic and foreign supply of oil and natural gas;
- weather conditions;
- the price and quantity of imports of crude oil and natural gas;
- political conditions and events in other oil-producing and natural gas-producing countries, including embargoes, hostilities in the Middle East and other sustained military campaigns, and acts of terrorism or sabotage;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- domestic government regulation, legislation and policies;
- the level of global oil and natural gas inventories;
- technological advances affecting energy consumption;
- the price and availability of alternative fuels; and
- overall economic conditions.

If the decline in the price of crude oil or natural gas that started in 2008 continues during 2009, the lower prices will adversely affect:

- our revenues, profitability and cash flow from operations;
- the value of our proved oil and natural gas reserves;
- the economic viability of certain of our drilling prospects;
- our borrowing capacity; and
- our ability to obtain additional capital.

We have entered into certain natural gas price hedging arrangements on certain of our anticipated sales in 2009. In the future we may enter into additional hedging arrangements in order to reduce our exposure to price risks. Such arrangements would limit our ability to benefit from increases in oil and natural gas prices.

***The current recession could have a material adverse impact on our financial position, results of operations and cash flows.***

The oil and gas industry is cyclical and tends to reflect general economic conditions. The United States and other countries are in a recession which could last through 2009 and beyond, and the capital markets are experiencing significant volatility. The recession is expected to have an adverse impact on demand and pricing for crude oil and natural gas. Oil and natural gas prices declined in late 2008 and have continued to decline into 2009. Our operating cash flows and profitability will be significantly affected by declining oil and natural gas prices. Continued declines in oil and natural gas prices may also impact the value of our oil and gas reserves, which could result in future impairment charges to reduce the carrying value of our oil and gas properties and our marketable securities. Our future access to capital could be limited due to tightening credit markets and volatile capital markets. If our access to capital is limited, development of our assets may be delayed or limited, and we may not be able to execute our growth strategy.

***Our future production and revenues depend on our ability to replace our reserves.***

Our future production and revenues depend upon our ability to find, develop or acquire additional oil and natural gas reserves that are economically recoverable. Our proved reserves will generally decline as reserves are depleted, except to the extent that we conduct successful exploration or development activities or acquire properties containing proved reserves, or both. To increase reserves and production, we must continue our acquisition and drilling activities. We cannot assure you, however, that our acquisition and drilling activities will result in significant additional reserves or that we will have continuing success

drilling productive wells at low finding and development costs. Furthermore, while our revenues may increase if prevailing oil and natural gas prices increase significantly, our finding costs for additional reserves could also increase.

***Prospects that we decide to drill may not yield oil or natural gas in commercially viable quantities or quantities sufficient to meet our targeted rate of return.***

A prospect is a property in which we own an interest or have operating rights and that has what our geoscientists believe, based on available seismic and geological information, to be an indication of potential oil or natural gas. Our prospects are in various stages of evaluation, ranging from a prospect that is ready to be drilled to a prospect that will require substantial additional evaluation and interpretation. There is no way to predict in advance of drilling and testing whether any particular prospect will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable. The use of seismic data and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. The analysis that we perform using data from other wells, more fully explored prospects and/or producing fields may not be useful in predicting the characteristics and potential reserves associated with our drilling prospects. If we drill additional unsuccessful wells, our drilling success rate may decline and we may not achieve our targeted rate of return.

***We plan to pursue acquisitions as part of our growth strategy and there are risks in connection with acquisitions.***

Our growth has been attributable in part to acquisitions of producing properties and companies. We expect to continue to evaluate and, where appropriate, pursue acquisition opportunities on terms we consider favorable. However, we cannot assure you that suitable acquisition candidates will be identified in the future, or that we will be able to finance such acquisitions on favorable terms. In addition, we compete against other companies for acquisitions, and we cannot assure you that we will successfully acquire any material property interests. Further, we cannot assure you that future acquisitions by us will be integrated successfully into our operations or will increase our profits.

The successful acquisition of producing properties requires an assessment of numerous factors beyond our control, including, without limitation:

- recoverable reserves;
- exploration potential;
- future oil and natural gas prices;
- operating costs; and
- potential environmental and other liabilities.

In connection with such an assessment, we perform a review of the subject properties that we believe to be generally consistent with industry practices. The resulting assessments are inexact and their accuracy uncertain, and such a review may not reveal all existing or potential problems, nor will it necessarily permit us to become sufficiently familiar with the properties to fully assess their merits and deficiencies. Inspections may not always be performed on every well, and structural and environmental problems are not necessarily observable even when an inspection is made.

Additionally, significant acquisitions can change the nature of our operations and business depending upon the character of the acquired properties, which may be substantially different in operating and geologic characteristics or geographic location than our existing properties. While our current operations are focused in the East Texas/North Louisiana and South Texas regions, we may pursue acquisitions or properties located in other geographic areas.

***Our debt service requirements could adversely affect our operations and limit our growth.***

We had \$210.0 million in debt as of December 31, 2008, and our ratio of total debt to total capitalization was approximately 17%.

Our outstanding debt will have important consequences, including, without limitation:

- a portion of our cash flow from operations will be required to make debt service payments;
- our ability to borrow additional amounts for working capital, capital expenditures (including acquisitions) or other purposes will be limited; and
- our debt could limit our ability to capitalize on significant business opportunities, our flexibility in planning for or reacting to changes in market conditions and our ability to withstand competitive pressures and economic downturns.

In addition, future acquisition or development activities may require us to alter our capitalization significantly. These changes in capitalization may significantly increase our debt. Moreover, our ability to meet our debt service obligations and to reduce our total debt will be dependent upon our future performance, which will be subject to general economic conditions and financial, business and other factors affecting our operations, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our indebtedness and to meet other commitments, we will be required to adopt one or more alternatives, such as refinancing or restructuring our indebtedness, selling material assets or seeking to raise additional debt or equity capital. We cannot assure you that any of these actions could be effected on a timely basis or on satisfactory terms or that these actions would enable us to continue to satisfy our capital requirements.

Our bank credit facility contains a number of significant covenants. These covenants will limit our ability to, among other things:

- borrow additional money;
- merge, consolidate or dispose of assets;
- make certain types of investments;
- enter into transactions with our affiliates; and
- pay dividends.

Our failure to comply with any of these covenants could cause a default under our bank credit facility and the indenture governing our 6<sup>7</sup>/<sub>8</sub>% senior notes due 2012. A default, if not waived, could result in acceleration of our indebtedness, in which case the debt would become immediately due and payable. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance it given the current status of the credit markets. Even if new financing is available, it may not be on terms that are acceptable to us. Complying with these covenants may cause us to take actions that we otherwise would not take or not take actions that we otherwise would take.

***The unavailability or high cost of drilling rigs, equipment, supplies or qualified personnel and oilfield services could adversely affect our ability to execute our exploration and development plans on a timely basis and within our budget.***

Our industry has experienced a shortage of drilling rigs, equipment, supplies and qualified personnel in recent years as the result of higher demand for these services. Costs and delivery times of rigs, equipment and supplies have been substantially greater than they were several years ago. In addition, demand for, and wage rates of, qualified drilling rig crews have escalated due to the higher activity levels. Shortages of drilling rigs, equipment or supplies or qualified personnel in the areas in which we operate could delay or

restrict our exploration and development operations, which in turn could adversely affect our financial condition and results of operations because of our concentration in those areas.

***Our business involves many uncertainties and operating risks that can prevent us from realizing profits and can cause substantial losses.***

Our future success will depend on the success of our exploration and development activities. Exploration activities involve numerous risks, including the risk that no commercially productive natural gas or oil reserves will be discovered. In addition, these activities may be unsuccessful for many reasons, including weather, cost overruns, equipment shortages and mechanical difficulties. Moreover, the successful drilling of a natural gas or oil well does not ensure we will realize a profit on our investment. A variety of factors, both geological and market-related, can cause a well to become uneconomical or only marginally economical. In addition to their costs, unsuccessful wells can hurt our efforts to replace production and reserves.

Our business involves a variety of operating risks, including:

- unusual or unexpected geological formations;
- fires;
- explosions;
- blow-outs and surface cratering;
- uncontrollable flows of natural gas, oil and formation water;
- natural disasters, such as hurricanes, tropical storms and other adverse weather conditions;
- pipe, cement, or pipeline failures;
- casing collapses;
- mechanical difficulties, such as lost or stuck oil field drilling and service tools;
- abnormally pressured formations; and
- environmental hazards, such as natural gas leaks, oil spills, pipeline ruptures and discharges of toxic gases.

If we experience any of these problems, well bores, gathering systems and processing facilities could be affected, which could adversely affect our ability to conduct operations.

We could also incur substantial losses as a result of:

- injury or loss of life;
- severe damage to and destruction of property, natural resources and equipment;
- pollution and other environmental damage;
- clean-up responsibilities;
- regulatory investigation and penalties;
- suspension of our operations; and
- repairs to resume operations.

***We operate in a highly competitive industry, and our failure to remain competitive with our competitors, many of which have greater resources than we do, could adversely affect our results of operations.***

The oil and natural gas industry is highly competitive in the search for and development and acquisition of reserves. Our competitors for the acquisition, development and exploration of oil and natural gas properties and capital to finance such activities, include companies that have greater financial and personnel resources than we do. These resources could allow those competitors to price their products and services

more aggressively than we can, which could hurt our profitability. Moreover, our ability to acquire additional properties and to discover reserves in the future will be dependent upon our ability to evaluate and select suitable properties and to close transactions in a highly competitive environment.

***Our competitors may use superior technology that we may be unable to afford or which would require costly investment by us in order to compete.***

If our competitors use or develop new technologies, we may be placed at a competitive disadvantage, and competitive pressures may force us to implement new technologies at a substantial cost. In addition, our competitors may have greater financial, technical and personnel resources that allow them to enjoy technological advances and may in the future allow them to implement new technologies before we can. We cannot be certain that we will be able to implement technologies on a timely basis or at a cost that is acceptable to us. One or more of the technologies that we currently use or that we may implement in the future may become obsolete. All of these factors may inhibit our ability to acquire additional prospects and compete successfully in the future.

***Substantial exploration and development activities could require significant outside capital, which could dilute the value of our common shares and restrict our activities. Also, we may not be able to obtain needed capital or financing on satisfactory terms, which could lead to a limitation of our future business opportunities and a decline in our oil and natural gas reserves.***

We expect to expend substantial capital in the acquisition of, exploration for and development of oil and natural gas reserves. In order to finance these activities, we may need to alter or increase our capitalization substantially through the issuance of debt or equity securities, the sale of non-strategic assets or other means. The issuance of additional equity securities could have a dilutive effect on the value of our common shares, and may not be possible on terms acceptable to us given the current volatility in the financial markets. The issuance of additional debt would require that a portion of our cash flow from operations be used for the payment of interest on our debt, thereby reducing our ability to use our cash flow to fund working capital, capital expenditures, acquisitions, dividends and general corporate requirements, which could place us at a competitive disadvantage relative to other competitors. Additionally, if our revenues decrease as a result of lower oil or natural gas prices, operating difficulties or declines in reserves, our ability to obtain the capital necessary to undertake or complete future exploration and development programs and to pursue other opportunities may be limited, which could result in a curtailment of our operations relating to exploration and development of our prospects, which in turn could result in a decline in our oil and natural gas reserves.

***If oil and natural gas prices remain low or continue to decrease, we may be required to write-down the carrying values and/or the estimates of total reserves of our oil and natural gas properties, which would constitute a non-cash charge to earnings and adversely affect our results of operations.***

Accounting rules applicable to us require that we review periodically the carrying value of our oil and natural gas properties for possible impairment. Based on specific market factors and circumstances at the time of prospective impairment reviews and the continuing evaluation of development plans, production data, economics and other factors, we may be required to write down the carrying value of our oil and natural gas properties. A write-down constitutes a non-cash charge to earnings. We may incur non-cash charges in the future, which could have a material adverse effect on our results of operations in the period taken. We may also reduce our estimates of the reserves that may be economically recovered, which could have the effect of reducing the total value of our reserves. Such a reduction in carrying value could impact our borrowing ability and may result in accelerating the repayment date of any outstanding debt.

***Our reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in our reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.***

Reserve engineering is a subjective process of estimating the recovery from underground accumulations of oil and natural gas that cannot be precisely measured. The accuracy of any reserve estimate depends on the quality of available data, production history and engineering and geological interpretation and judgment. Because all reserve estimates are to some degree imprecise, the quantities of oil and natural gas that are ultimately recovered, production and operating costs, the amount and timing of future development expenditures and future oil and natural gas prices may all differ materially from those assumed in these estimates. The information regarding present value of the future net cash flows attributable to our proved oil and natural gas reserves is only estimated and should not be construed as the current market value of the oil and natural gas reserves attributable to our properties. Thus, such information includes revisions of certain reserve estimates attributable to proved properties included in the preceding year's estimates. Such revisions reflect additional information from subsequent activities, production history of the properties involved and any adjustments in the projected economic life of such properties resulting from changes in product prices. Any future downward revisions could adversely affect our financial condition, our borrowing ability, our future prospects and the value of our common stock.

As of December 31, 2008, 33% of our total proved reserves are undeveloped and 14% are developed non-producing. These reserves may not ultimately be developed or produced. Furthermore, not all of our undeveloped or developed non-producing reserves may be ultimately produced at the time periods we have planned, at the costs we have budgeted, or at all. As a result, we may not find commercially viable quantities of oil and natural gas, which in turn may result in a material adverse effect on our results of operations.

***If we are unsuccessful at marketing our oil and gas at commercially acceptable prices, our profitability will decline.***

Our ability to market oil and gas at commercially acceptable prices depends on, among other factors, the following:

- the availability and capacity of gathering systems and pipelines;
- federal and state regulation of production and transportation;
- changes in supply and demand; and
- general economic conditions.

Our inability to respond appropriately to changes in these factors could negatively effect our profitability.

***Market conditions or operational impediments may hinder our access to oil and natural gas markets or delay our production.***

Market conditions or the unavailability of satisfactory oil and natural gas transportation arrangements may hinder our access to oil and natural gas markets or delay our production. The availability of a ready market for our oil and natural gas production depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and processing facilities. Our ability to market our production depends in a substantial part on the availability and capacity of gathering systems, pipelines and processing facilities, in some cases owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business. We may be required to shut in wells for a lack of a market or because of the inadequacy or unavailability of pipelines or gathering system



capacity. If that were to occur, then we would be unable to realize revenue from those wells until arrangements were made to deliver our production to market.

***We depend on our key personnel and the loss of any of these individuals could have a material adverse effect on our operations.***

We believe that the success of our business strategy and our ability to operate profitably depend on the continued employment of M. Jay Allison, our President and Chief Executive Officer, and a limited number of other senior management personnel. Loss of the services of Mr. Allison or any of those other individuals could have a material adverse effect on our operations.

***Our insurance coverage may not be sufficient or may not be available to cover some liabilities or losses that we may incur.***

If we suffer a significant accident or other loss, our insurance coverage will be net of our deductibles and may not be sufficient to pay the full current market value or current replacement value of our lost investment, which could result in a material adverse impact on our operations and financial condition. Our insurance does not protect us against all operational risks. We do not carry business interruption insurance. For some risks, we may not obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. Because third party drilling contractors are used to drill our wells, we may not realize the full benefit of workers' compensation laws in dealing with their employees. In addition, some risks, including pollution and environmental risks, generally are not fully insurable.

***We are subject to extensive governmental laws and regulations that may adversely affect the cost, manner or feasibility of doing business.***

Our operations and facilities are subject to extensive federal, state and local laws and regulations relating to the exploration for, and the development, production and transportation of, oil and natural gas, and operating safety. Future laws or regulations, any adverse changes in the interpretation of existing laws and regulations or our failure to comply with existing legal requirements may harm our business, results of operations and financial condition. We may be required to make large and unanticipated capital expenditures to comply with governmental laws and regulations, such as:

- lease permit restrictions;
- drilling bonds and other financial responsibility requirements, such as plug and abandonment bonds;
- spacing of wells;
- unitization and pooling of properties;
- safety precautions;
- regulatory requirements; and
- taxation.

Under these laws and regulations, we could be liable for:

- personal injuries;
- property and natural resource damages;
- well reclamation costs; and
- governmental sanctions, such as fines and penalties.

Our operations could be significantly delayed or curtailed and our cost of operations could significantly increase as a result of regulatory requirements or restrictions. We are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations.

***Our operations may incur substantial liabilities to comply with environmental laws and regulations.***

Our oil and natural gas operations are subject to stringent federal, state and local laws and regulations relating to the release or disposal of materials into the environment and otherwise relating to environmental protection. These laws and regulations:

- require the acquisition of a permit before drilling commences;
- restrict the types, quantities and concentration of substances that can be released into the environment in connection with drilling and production activities;
- limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas; and
- impose substantial liabilities for pollution resulting from our operations.

Failure to comply with these laws and regulations may result in:

- the assessment of administrative, civil and criminal penalties;
- the incurrence of investigatory or remedial obligations; and
- the imposition of injunctive relief.

Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to reach and maintain compliance and may otherwise have a material adverse effect on our industry in general and on our own results of operations, competitive position or financial condition. Under these environmental laws and regulations, we could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether we were responsible for the release or contamination or if our operations met previous standards in the industry at the time they were performed.

***Provisions of our articles of incorporation, bylaws and Nevada law will make it more difficult to effect a change in control of us, which could adversely affect the price of our common stock.***

Nevada corporate law and our articles of incorporation and bylaws contain provisions that could delay, defer or prevent a change in control of us. These provisions include:

- allowing for authorized but unissued shares of common and preferred stock;
- a classified board of directors;
- requiring special stockholder meetings to be called only by our chairman of the board, our chief executive officer, a majority of the board or the holders of at least 10% of our outstanding stock entitled to vote at a special meeting;
- requiring removal of directors by a supermajority stockholder vote;
- prohibiting cumulative voting in the election of directors; and
- Nevada control share laws that may limit voting rights in shares representing a controlling interest in us.

We have in place a stockholders' rights plan. The provisions of the stockholders' rights plan and the above provisions could make an acquisition of us by means of a tender offer or proxy contest or removal of our incumbent directors more difficult. As a result, these provisions could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders, which may limit the price that investors are willing to pay in the future for shares of our common stock.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 3. LEGAL PROCEEDINGS**

We are not a party to any legal proceedings which management believes will have a material adverse effect on our 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 our security holders during the fourth quarter of 2008.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our 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>
2007 —	First Quarter	\$ 32.49	\$ 25.14
	Second Quarter	\$ 31.81	\$ 27.03
	Third Quarter	\$ 32.89	\$ 24.62
	Fourth Quarter	\$ 39.44	\$ 30.85
2008 —	First Quarter	\$ 40.92	\$ 28.52
	Second Quarter	\$ 85.26	\$ 38.84
	Third Quarter	\$ 90.61	\$ 43.96
	Fourth Quarter	\$ 52.62	\$ 24.34

As of February 25, 2009, we had 46,442,595 shares of common stock outstanding, which were held by 278 holders of record and approximately 29,420 beneficial owners who maintain their shares in "street name" accounts.

We have never paid cash dividends on our common stock. We presently intend to retain any earnings for the operation and expansion of our business and we do not anticipate paying cash dividends in the foreseeable future. Any future determination as to the payment of dividends will depend upon the results of our operations, capital requirements, our financial condition and such other factors as our board of directors

may deem relevant. In addition, we are limited under our bank credit facility and by the terms of the indenture for our senior notes from paying or declaring cash dividends in excess of \$40.0 million.

During the fourth quarter of 2008, we did not repurchase any of our equity securities.

The following table summarizes certain information regarding our equity compensation plans as of December 31, 2008:

	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities authorized for future issuance under equity compensation plans (excluding outstanding options, warrants and rights)</b>
Equity compensation plans approved by stockholders	456,870	\$23.56	393,587 <sup>(1)</sup>

(1) Plus 1% of the outstanding shares of common stock each year beginning on each subsequent January 1.

We do not have any equity compensation plans that were not approved by stockholders.

**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, 2008 are derived from our consolidated financial statements. The financial results are not necessarily indicative of our future operations or future financial results. The data presented below should be read in conjunction with our consolidated financial statements and the notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” During 2008, we divested our interests in offshore operations which were conducted through our subsidiary Bois d’Arc Energy, Inc. (“Bois d’Arc Energy”). Accordingly, we have adjusted the presentation of selected financial data to reflect the offshore operations on a discontinued basis.

**Statement of Operations Data:**

	Year Ended December 31,				
	2004	2005	2006	2007	2008
	(In thousands, except per share data)				
<b>Revenues:</b>					
Oil and gas sales	\$ 172,668	\$ 264,806	\$ 257,218	\$ 331,613	\$ 563,749
Gain on sale of assets	—	—	—	—	26,560
Total revenues	172,668	264,806	257,218	331,613	590,309
<b>Operating expenses:</b>					
Oil and gas operating <sup>(1)</sup>	31,628	44,267	53,903	64,791	86,730
Exploration	6,581	16,899	1,424	7,039	5,032
Depreciation, depletion and amortization	37,075	53,123	75,278	125,349	182,179
Impairment of oil and gas properties	1,648	3,400	8,812	482	922
General and administrative, net	11,439	14,686	20,395	27,813	32,266
Total operating expenses	88,371	132,375	159,812	225,474	307,129
Income from operations	84,297	132,431	97,406	106,139	283,180
<b>Other income (expenses):</b>					
Interest income	92	388	682	877	1,537
Other income	156	209	184	144	119
Interest expense	(16,947)	(20,266)	(20,733)	(32,293)	(25,336)
Loss on early extinguishment of debt	(19,599)	—	—	—	—
Marketable securities impairment	—	—	—	—	(162,672) <sup>(2)</sup>
Gain (loss) from derivatives	(155)	(13,556)	10,716	—	—
Total other income (expense)	(36,453)	(33,225)	(9,151)	(31,272)	(186,352)
Income from continuing operations before income taxes	47,844	99,206	88,255	74,867	96,828
Provision for income taxes	(17,464)	(36,525)	(34,190)	(29,223)	(38,611)
Income from continuing operations	30,380	62,681	54,065	45,644	58,217
Income (loss) from discontinued operations	16,487	(2,202)	16,600	23,257	193,745 <sup>(3)</sup>
Net income	\$ 46,867	\$ 60,479	\$ 70,665	\$ 68,901	\$ 251,962
<b>Basic net income per share:</b>					
Continuing operations	\$ 0.89	\$ 1.60	\$ 1.28	\$ 1.05	\$ 1.31
Discontinued operations	0.48	(0.06)	0.39	0.54	4.35
	\$ 1.37	\$ 1.54	\$ 1.67	\$ 1.59	\$ 5.66
<b>Diluted net income per share:</b>					
Continuing operations	\$ 0.84	\$ 1.52	\$ 1.24	\$ 1.03	\$ 1.28
Discontinued operations	0.45	(0.05)	0.37	0.51	4.25
	\$ 1.29	\$ 1.47	\$ 1.61	\$ 1.54	\$ 5.53
<b>Weighted average shares outstanding:</b>					
Basic	34,187	39,216	42,220	43,415	44,524
Diluted	36,252	41,154	43,556	44,405	45,440

(1) Includes lease operating costs and production and ad valorem taxes.  
(2) Unrealized loss before income taxes representing the impairment on shares of common stock of Stone Energy Corporation.  
(3) Includes gain of \$158.1 million, net of income taxes of \$85.3 million, from the sale of our offshore operations.

**Balance Sheet Data:**

	As of December 31,				
	2004	2005	2006	2007	2008
	(In thousands)				
Cash and cash equivalents	\$ 1,256	\$ 89	\$ 1,228	\$ 5,565	\$ 6,281
Property and equipment, net	455,085	706,928	917,854	1,310,559	1,444,715
Net assets of discontinued operations	443,532	252,258	913,478	981,682	—
Total assets	941,477	1,016,663	1,878,125	2,354,387	1,577,890
Total debt	403,000	243,000	355,000	680,000	210,000
Stockholders' equity	355,853	582,859	682,563	771,644	1,062,085

**Cash Flow Data:**

	Year Ended December 31,				
	2004	2005	2006	2007	2008
	(In thousands)				
Cash flows provided by operating activities from continuing operations	\$ 92,836	\$ 173,193	\$ 186,169	\$ 201,539	\$ 450,533
Cash flows used for investing activities from continuing operations	(169,462)	(327,234)	(281,505)	(531,493)	(289,194)
Cash flows provided by (used for) financing activities from continuing operations	87,460	2,127	132,882	334,357	(452,883)
Cash flows provided by (used for) discontinued operations	(14,921)	150,747	(36,407)	(66)	292,260

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

The following discussion and analysis should be read in conjunction with our selected historical consolidated financial data and our accompanying consolidated financial statements and the notes to those financial statements included elsewhere in this report. The following discussion includes forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this report, particularly in "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements."

**Overview**

We are an independent energy company engaged in the acquisition, exploration, development and production of oil and natural gas in the United States. We own interests in 1,693 (896.4 net to us) producing oil and natural gas wells and we operate 937 of these wells. In managing our business, we are concerned primarily with maximizing return on our stockholders' equity. To accomplish this goal, we focus on profitably increasing our oil and natural gas reserves and production.

Our offshore operations were historically conducted through our subsidiary, Bois d'Arc Energy. Bois d'Arc Energy was acquired by Stone Energy Corporation ("Stone") in exchange for a combination of cash and shares of Stone common stock on August 28, 2008. Accordingly, our offshore operations are presented as discontinued operations in our financial statements for all periods presented. Unless indicated otherwise, the amounts in the accompanying tables and discussion relate to our continuing onshore operations.

Our future growth will be driven primarily by acquisition, development and exploration activities. Under our current drilling budget, we plan to spend approximately \$366.0 million in 2009 for development and exploration activities. We plan to drill approximately 41 wells (34.8 net to us) in 2009. Thirty-two of

these wells will be horizontal wells drilled in our East Texas/North Louisiana operating region. However, we could increase or decrease the number of wells that we drill depending on oil and natural gas prices. We do not budget for acquisitions as the timing and size of acquisitions are not predictable. We use the successful efforts method of accounting which allows only for the capitalization of costs associated with developing proven oil and natural gas properties as well as exploration costs associated with successful exploration activities. Accordingly, our exploration costs consist of costs we incur to acquire and reprocess 3-D seismic data, impairments of our unevaluated leasehold where we were not successful in discovering reserves and the costs of unsuccessful exploratory wells that we drill.

We generally sell our oil and natural gas at current market prices at the point our wells connect to third party purchaser pipelines. We market our products several different ways depending upon a number of factors, including the availability of purchasers for the product, the availability and cost of pipelines near our wells, market prices, pipeline constraints and operational flexibility. Accordingly, our revenues are heavily dependent upon the prices of, and demand for, oil and natural gas. Oil and natural gas prices have historically been volatile and are likely to remain volatile in the future.

Our operating costs are generally comprised of several components, including costs of field personnel, insurance, repair and maintenance costs, production supplies, fuel used in operations, transportation costs, workover expenses and state production and ad valorem taxes.

Like all oil and natural gas exploration and production companies, we face the challenge of replacing our reserves. Although in the past we have offset the effect of declining production rates from existing properties through successful acquisition and drilling efforts, there can be no assurance that we will be able to offset production declines or maintain production at current rates through future acquisitions or drilling activity. Our future growth will depend on our ability to continue to add new reserves in excess of production.

Our operations and facilities are subject to extensive federal, state and local laws and regulations relating to the exploration for, and the development, production and transportation of, oil and natural gas, and operating safety. Future laws or regulations, any adverse changes in the interpretation of existing laws and regulations or our failure to comply with existing legal requirements may harm our business, results of operations and financial condition. Applicable environmental regulations require us to remove our equipment after production has ceased, to plug and abandon our wells and to remediate any environmental damage our operations may have caused. The present value of the estimated future costs to plug and abandon our oil and gas wells and to dismantle and remove our production facilities is included in our reserve for future abandonment costs, which was \$5.5 million as of December 31, 2008.

**Results of Operations**

**Year Ended December 31, 2008 Compared to Year Ended December 31, 2007**

Our operating data for 2007 and 2008 is summarized below:

	Year Ended December 31,	
	2007	2008
<b>Net Production Data:</b>		
Natural gas (MMcf)	39,231	53,867
Oil (MBbls)	1,008	1,009
Natural gas equivalent (MMcfe)	45,282	59,923
<b>Average Sales Price:</b>		
Oil (\$/Bbl)	\$ 60.96	\$ 87.15
Natural gas (\$/Mcf)	\$ 6.89	\$ 8.92
Natural gas including hedging (\$/Mcf)	\$ 6.89	\$ 8.83
Average equivalent price (\$/Mcf)	\$ 7.32	\$ 9.49
Average equivalent price including hedging (\$/Mcf)	\$ 7.32	\$ 9.41
<b>Expenses (\$ per Mcfe):</b>		
Oil and gas operating <sup>(1)</sup>	\$ 1.43	\$ 1.45
Depreciation, depletion and amortization <sup>(2)</sup>	\$ 2.76	\$ 3.03

<sup>(1)</sup> Includes lease operating costs and production and ad valorem taxes.

<sup>(2)</sup> Represents depreciation, depletion and amortization of oil and gas properties only.

*Oil and gas sales.* Our oil and gas sales increased \$232.1 million (70%) in 2008 to \$563.7 million from \$331.6 million in 2007. The increase in our sales is primarily due to a 32% increase in our production combined with stronger oil and natural gas prices in 2008. Our realized oil price in 2008 increased by 43% and our realized natural gas price increased by 28% as compared to 2007. The increase in production is primarily a result of our successful drilling activity and the acquisition of producing properties in South Texas in December 2007.

*Oil and gas operating expenses.* Our oil and gas operating expenses, including production taxes, increased \$21.9 million (34%) to \$86.7 million in 2008 from \$64.8 million in 2007. Oil and gas operating expenses per equivalent Mcf produced increased \$0.02 to \$1.45 as compared to \$1.43 in 2007. The increase in operating costs is due to the start-up of new wells and higher production and ad valorem taxes due to increased oil and gas prices.

*Exploration expense.* In 2008, we incurred \$5.0 million in exploration expense as compared to \$7.0 million in 2007. Exploration expense in 2008 primarily relates to one dry hole drilled, the impairment of unevaluated leases and the acquisition of seismic data. Exploration expense in 2007 included costs for four dry holes, leasehold impairments and costs incurred for seismic data acquisition.

*DD&A.* Depreciation, depletion and amortization ("DD&A") increased \$56.9 million (45%) to \$182.2 million in 2008 from \$125.3 million in 2007. This increase resulted from our 32% increase in production in 2008 as compared to 2007 and an increase in our average DD&A rate from \$2.76 to \$3.03 per Mcfe produced. The increase in the average DD&A rate results from the higher finding costs associated with our property acquisitions and exploration and development activities in 2007 and 2008 and downward revisions to our proved reserves due to the lower realized oil and natural gas prices on December 31, 2008.



*Impairment of oil and gas properties.* We recorded impairments to our oil and gas properties of \$0.9 million in 2008 and \$0.5 million in 2007. The impairments in 2008 and 2007 relate to fields where an impairment was indicated based on estimated future cash flows attributable to the fields' estimated proved oil and natural gas reserves.

*General and administrative expenses.* General and administrative expenses, which are reported net of overhead reimbursements, increased \$4.5 million (16%) in 2008 to \$32.3 million from \$27.8 million in 2007. The increase primarily reflects higher personnel costs resulting from increased hiring to support our operating activities and an increase of \$1.5 million in stock based compensation in 2008 as compared to 2007.

*Interest expense.* Interest expense decreased \$7.0 million (22%) to \$25.3 million in 2008 from \$32.3 million in 2007. The decrease was primarily due to lower interest rates in 2008 and the capitalization of interest related to our unevaluated properties on which we are conducting exploration activity. The average interest rate on the outstanding borrowings under our credit facility decreased to 4.5% in 2008 as compared to 6.6% in 2007. We capitalized interest of \$2.3 million in 2008 which reduced interest expense. No interest was capitalized in 2007. Average borrowings under our bank credit facility increased to \$301.5 million in 2008 as compared to \$279.7 million for 2007.

*Impairment of marketable securities.* We received shares of common stock of Stone from the sale of Bois d'Arc Energy which were initially valued at \$211.4 million. Subsequent to August 2008, the market value of the Stone shares declined significantly. We recognized an impairment charge of \$162.7 million in the fourth quarter of 2008 based upon our assessment that this decline is other than temporary.

*Income taxes.* Income tax expense related to continuing operations increased by \$9.4 million to \$38.6 million in 2008 from \$29.2 million for 2007. Higher income tax expenses in 2008 are primarily due to our higher income. Our effective tax rate of 39.9% for continuing operations in 2008 was comparable to our effective tax rate in 2007 of 39.0%.

*Income from continuing operations.* We reported income from continuing operations of \$58.2 million in 2008, as compared to \$45.6 million for 2007. The income per diluted share from continuing operations for 2008 was \$1.28 on weighted average diluted shares outstanding of 45.4 million as compared to \$1.03 for 2007 on weighted average diluted shares outstanding of 44.4 million. The higher income from continuing operations in 2008 results from higher oil and gas sales reflecting increased production and significantly higher oil and natural gas prices received. Higher revenues were only partially offset by higher operating costs, DD&A expense and general and administrative expense. Impairments of \$163.6 million in 2008 reduced our income from continuing operations by \$106.4 million.

*Income from discontinued operations.* Income from discontinued operations was \$193.7 million in 2008 as compared to \$23.3 million in 2007. The increase in income from discontinued operations in 2008 reflects the higher oil and gas prices in 2008 offset in part by higher operating and exploration expenses of the offshore operations. Also included in income from discontinued operations in 2008 is a net gain, after income taxes, of \$158.1 million as a result of the sale of our interest in Bois d'Arc Energy.

**Year Ended December 31, 2007 Compared to Year Ended December 31, 2006**

Our operating data for 2006 and 2007 is summarized below:

	Year Ended December 31,	
	2006	2007
<b>Net Production Data:</b>		
Natural gas (MMcf)	30,271	39,231
Oil (MBbls)	921	1,008
Natural gas equivalent (MMcfe)	35,797	45,282
<b>Average Sales Price:</b>		
Oil (\$/Bbl)	\$ 55.32	\$ 60.96
Natural gas (\$/Mcf)	\$ 6.81	\$ 6.89
Average equivalent price (\$/Mcf)	\$ 7.19	\$ 7.32
<b>Expenses (\$ per Mcfe):</b>		
Oil and gas operating <sup>(1)</sup>	\$ 1.51	\$ 1.43
Depreciation, depletion and amortization <sup>(2)</sup>	\$ 2.10	\$ 2.76

<sup>(1)</sup> Includes lease operating costs and production and ad valorem taxes.

<sup>(2)</sup> Represents depreciation, depletion and amortization of oil and gas properties only.

**Oil and gas sales.** Our oil and gas sales increased \$74.4 million (29%) in 2007 to \$331.6 million from sales of \$257.2 million in 2006. This increase primarily reflects a 27% increase in production and higher prices for crude oil and natural gas in 2007. Prices for crude oil increased by 10% in 2007 as compared to 2006. Our average natural gas price increased by 1% in 2007 as compared to 2006. The higher production in 2007 was primarily due to our successful drilling activity.

**Oil and gas operating expenses.** Our oil and gas operating expenses, including production taxes, increased \$10.9 million (20%) to \$64.8 million in 2007 from operating expenses of \$53.9 million in 2006. Oil and gas operating expenses per equivalent Mcf produced decreased \$0.08 to \$1.43 as compared to \$1.51 in 2006. The increase in operating costs reflects the start-up of new wells and higher production taxes due to increased oil and gas prices.

**Exploration expense.** In 2007, we incurred \$7.0 million in exploration expense as compared to exploration expense of \$1.4 million in 2006. Exploration expense in 2007 primarily relates to dry hole expense on four exploratory wells, the acquisition of seismic data, and impairment of unproved properties. Exploration expense in 2006 includes costs for two exploratory dry holes and seismic costs.

**DD&A.** DD&A increased \$50.0 million (67%) to \$125.3 million in 2007 from DDA expense of \$75.3 million in 2006. Our DD&A rate per Mcfe produced averaged \$2.76 in 2007 as compared to \$2.10 for 2006. DD&A increased due to higher production and an increase in the amortization rate caused by higher finding costs related to our acquisition, exploration and development activities.

**Impairment of oil and gas properties.** We recorded impairments to our oil and gas properties of \$0.5 million in 2007 as compared to impairment expense of \$8.8 million in 2006.

**General and administrative expenses.** General and administrative expenses, which are reported net of overhead reimbursements, of \$27.8 million for 2007 were 36% higher than general and administrative expenses of \$20.4 million for 2006. The increase primarily reflects higher personnel costs in 2007 due to increased staffing necessary to support our exploration and development activities and an increase of \$3.9 million in stock-based compensation in 2007 as compared to 2006.

*Interest expense.* Interest expense increased \$11.6 million (56%) to \$32.3 million in 2007 from interest expense of \$20.7 million in 2006. The increase was primarily the result of higher outstanding borrowings and higher average interest rates in 2007. Average borrowings under our bank credit facility increased to \$279.7 million in 2007 as compared to \$100.0 million for 2006. The average interest rate on the outstanding borrowings under our credit facility increased to 6.6% in 2007 as compared to 6.4% in 2006.

*Derivative Gains and Losses.* We had no derivative instruments outstanding in 2007. We did not designate our derivatives we utilized as part of our price risk management program in 2006 as cash flow hedges and accordingly, we recognize gains or losses for the changes in the fair value of these liabilities during each period. The fair value of our liability for these derivatives decreased during 2006 resulting in a net unrealized gain of \$11.2 million. We realized losses to settle derivative positions of \$0.7 million in 2006.

*Income taxes.* Income tax expense from continuing operations decreased in 2007 to \$29.2 million from \$34.2 million in 2006 due to our lower pre-tax income in 2007. Our effective tax rate of 39.0% in 2007 was comparable to our effective tax rate of 38.7% in 2006.

*Income from continuing operations.* We reported income from continuing operations of \$45.6 million for 2007 as compared to \$54.1 million for 2006. The income per diluted share from continuing operations for 2007 was \$1.03 on weighted average diluted shares outstanding of 44.4 million as compared to \$1.24 for 2006 on weighted average diluted shares outstanding of 43.6 million. Higher revenues in 2007 were offset by higher operating expenses and interest expense.

*Income from discontinued operations.* Income from discontinued operations of \$23.3 million in 2007 was \$6.7 million (40%) higher than income from discontinued operations of \$16.6 million during 2006. The increase in income from discontinued operations in 2007 reflect the higher oil and gas prices in 2007 offset, in part, by higher operating and exploration expenses of the offshore operations.

#### **Liquidity and Capital Resources**

Funding for our activities has historically been provided by our operating cash flow, debt or equity financings or asset dispositions. In 2008, our net cash flow provided by operating activities from continuing operations totaled \$450.5 million. Our other primary source of funds in 2008 was the after tax proceeds of \$421.8 million from the disposition of assets, including sale of our offshore operations. In 2007, our net cash flow provided by operating activities from continuing operations totaled \$201.5 million. Our other primary source of funds in 2007 was a net increase of \$325.0 million under our bank credit facility. In 2006, our net cash flow provided by operating activities from continuing operations totaled \$186.2 million and we also increased the amount outstanding under our bank credit facility by \$112.0 million.

Our cash flow from operating activities from continuing operations in 2008 increased by \$249.0 million to \$450.5 million as compared to \$201.5 million in 2007 primarily due to higher revenues which were attributable to our increased production and higher oil and natural gas prices. Our cash flow from operating activities from continuing operations in 2007 increased by \$15.3 million to \$201.5 million as compared to \$186.2 million in 2006 primarily due to our higher revenues which were attributable to our increased production.

Our primary need for capital, in addition to funding our ongoing operations, relates to the acquisition, development and exploration of our oil and gas properties, and the repayment of our debt. In 2008, we reduced the amount outstanding under our bank credit facility by \$470.0 million, primarily by using the proceeds from our asset sales. Our capital expenditures in 2008 of \$426.4 million decreased by \$100.6 million from 2007 capital expenditures of \$527.0 million. Capital expenditures in 2007 included \$191.3 million for acquisitions of producing properties. We had no acquisitions in 2008. In 2008, we spent \$113.0 million to acquire

unevaluated acreage primarily relating to the exploration of the Haynesville Shale formation. Capital expenditures in 2007 increased by \$237.0 million over 2006 capital expenditures of \$290.0 million primarily due to increased acquisition and drilling activity.

Our annual capital expenditure activity is summarized in the following table:

	Year Ended December 31,		
	2006	2007 (In thousands)	2008
<b>Exploration and development:</b>			
Acquisitions of proved oil and gas properties	\$ 61,619	\$ 191,290	\$ —
Acquisitions of unproved oil and gas properties	7,031	6,202	113,023
Developmental leasehold costs	2,902	2,780	6,242
Development drilling	188,131	302,355	230,604
Exploratory drilling	7,776	14,289	61,113
Workovers and recompletions	21,270	8,799	14,248
	288,729	525,715	425,230
Other	1,313	1,257	1,171
<b>Total</b>	<b>\$ 290,042</b>	<b>\$ 526,972</b>	<b>\$ 426,401</b>

The timing of most of our capital expenditures is discretionary because we have no material long-term capital expenditure commitments except for contracted drilling services. Consequently, we have a significant degree of flexibility to adjust the level of our capital expenditures as circumstances warrant. We currently expect to spend approximately \$366.0 million for development and exploration projects in 2009, which will be funded primarily by cash flows from operating activities and, to a lesser extent, by borrowings under our bank credit facility. Our operating cash flow and, therefore, our capital expenditures are highly dependent on oil and natural gas prices and, in particular, natural gas prices.

We spent \$61.6 million and \$191.3 million on acquisitions during 2006 and 2007, respectively. Our acquisitions of producing oil and gas properties in 2007 included the acquisition of certain oil and natural gas properties and related assets from SWEPI LP, an affiliate of Shell Oil Company for \$160.1 million in December 2007 and the acquisition of additional working interests in the Javelina field in Hidalgo County in South Texas for \$31.2 million in June 2007. These acquisitions were funded with borrowings under our bank credit facility. We did not make any acquisitions during 2008.

Concurrent with the December 2007 acquisition, we entered into a transaction structured as a reverse like-kind exchange in accordance with Section 1031 of the Internal Revenue Code. In connection with this reverse like-kind exchange, we assigned the right to acquire ownership in the oil and gas properties that were acquired from SWEPI LP to an exchange accommodation titleholder. We operated these properties pursuant to lease and management agreements. Because we were the primary beneficiary of these arrangements, the properties acquired were included in our consolidated balance sheet as of December 31, 2007, and we include all revenues earned and expenses incurred related to the properties in our results of operations during the term of the agreements. We completed the exchange with the sale of certain properties in 2008 and the acquired properties were transferred to us from the exchange accommodation titleholder. The taxable gain from these property sales was deferred as a result of the reverse like-kind exchange.

We do not have a specific acquisition budget for 2009 because the timing and size of acquisitions are unpredictable. Smaller acquisitions will generally be funded from operating cash flow. With respect to significant acquisitions, we intend to use borrowings under our bank credit facility, or other debt or equity financings to the extent available, to finance such acquisitions. The availability and attractiveness of these sources of financing will depend upon a number of factors, some of which will relate to our financial condition and performance and some of which will be beyond our control, such as prevailing interest rates,

oil and natural gas prices and other market conditions. Lack of access to the debt or equity markets due to general economic conditions could impede our ability to complete acquisitions.

Cash flows from discontinued operations in 2008 of \$292.3 million include the cash proceeds received from sale of our offshore operations of \$439.7 million less the payment of income taxes associated with this transaction of \$146.4 million. Cash used by discontinued operations in 2007 and 2006 of \$0.1 million and \$36.4 million, respectively, reflect additional investments by us in the offshore operations in each of those years.

We have a \$850.0 million bank credit facility with Bank of Montreal, as the administrative agent. The bank credit facility is a five-year revolving credit commitment that matures on December 15, 2011. Indebtedness under the bank credit facility is secured by all of our and our subsidiaries' assets and is guaranteed by all of our subsidiaries. The bank credit facility is subject to borrowing base availability, which is redetermined semiannually based on the banks' estimates of the future net cash flows of our oil and natural gas properties. As of December 31, 2008 the borrowing base was \$590.0 million, \$555.0 million of which was available. The borrowing base may be affected by the performance of our properties and changes in oil and natural gas prices. The determination of the borrowing base is at the sole discretion of the administrative agent and the bank group. Borrowings under the bank credit facility bear interest, based on the utilization of the borrowing base, at our option at either LIBOR plus 1.0% to 1.75% or the base rate (which is the higher of the prime rate or the federal funds rate) plus 0% to 0.25%. A commitment fee of 0.25% to 0.375%, based on the utilization of the borrowing base, is payable on the unused portion of the borrowing base. The bank credit facility contains covenants that, among other things, restrict the payment of cash dividends in excess of \$40.0 million, limit the amount of consolidated debt that we may incur and limit our ability to make certain loans and investments. The only financial covenants are the maintenance of a ratio of current assets, including the availability under the bank credit facility, to current liabilities of at least one-to-one and maintenance of a minimum tangible net worth. We were in compliance with these covenants as of December 31, 2008.

We have \$175.0 million of senior notes outstanding. The senior notes are due March 1, 2012 and bear interest at 6<sup>7</sup>/<sub>8</sub>%, which is payable semiannually on each March 1 and September 1. The senior notes are unsecured obligations and are guaranteed by all of our subsidiaries.

We believe that our cash flow from operations and available borrowings under our bank credit facility will be sufficient to fund our operations and future growth as contemplated under our current business plan. However, if our plans or assumptions change or if our assumptions prove to be inaccurate, we may be required to seek additional capital. We cannot provide any assurance that we will be able to obtain such capital, or if such capital is available, that we will be able to obtain it on acceptable terms.

The following table summarizes our aggregate liabilities and commitments by year of maturity:

	2009	2010	2011	2012	2013	Thereafter	Total
	(In thousands)						
Bank credit facility	\$ —	\$ —	\$ 35,000	\$ —	\$ —	\$ —	\$ 35,000
6 <sup>7</sup> / <sub>8</sub> % senior notes	—	—	—	175,000	—	—	175,000
Interest on debt	12,885	12,885	12,848	2,006	—	—	40,624
Operating leases	1,646	1,656	1,656	1,656	1,656	3,174	11,444
Natural gas transportation agreements	3,538	4,070	4,070	4,070	3,139	6,917	25,804
Contracted drilling services	46,156	43,670	30,843	15,467	—	—	136,136
	<u>\$ 64,225</u>	<u>\$ 62,281</u>	<u>\$ 84,417</u>	<u>\$ 198,199</u>	<u>\$ 4,795</u>	<u>\$ 10,091</u>	<u>\$ 424,008</u>

Future interest costs are based upon the interest rate on our outstanding senior notes and on the December 31, 2008 rate for our bank credit facility.

We have obligations to incur future payments for dismantlement, abandonment and restoration costs of oil and gas properties. These payments are currently estimated to be incurred primarily after 2013. We record a separate liability for the fair value of these asset retirement obligations which totaled \$5.5 million as of December 31, 2008.

*Impact of Recession and Current Credit and Capital Markets*

The United States and other countries are currently in a recession which could last through 2009 and beyond. Additionally, the credit and capital markets are experiencing significant volatility, and many financial institutions have liquidity concerns, prompting government intervention to mitigate pressure on the credit markets. We believe we are well positioned to conduct business in the current economic climate because we operate a majority of our wells, giving us control over the timing of our operations costs and capital expenditures, and we have a conservative balance sheet.

Our primary exposure to the current credit market crisis is our bank credit facility. Our bank credit facility is committed in the amount of \$850.0 million until December 15, 2011. As of December 31, 2008, the borrowing base was \$590.0 million, \$555.0 million of which was available. Our borrowing base is adjusted semiannually. Our borrowing base may be adversely impacted if oil and natural gas prices remain low and continue to decline. If not extended, the bank credit facility matures on December 15, 2011. There are indications that further consolidation will occur within the banking industry, which could result in some of the financial institutions that participate in our bank credit facility merging into or being acquired by other banks. We cannot predict what, if any, impact any such transactions might have on our current bank credit facility. In addition, we have \$175.0 million of senior notes outstanding that are due March 1, 2012. If the credit markets do not improve, future extensions of our bank credit facility or any refinancing of our senior notes may be on terms and conditions that are less favorable than the current terms.

Crude oil and natural gas prices are also volatile as evidenced by their significant decline during the fourth quarter of 2008 which has continued into early 2009. Lower oil and natural gas prices will reduce our cash flows from operations. Depending on the length of the current recession, oil and natural gas prices may stay depressed or decline further, thereby causing a prolonged downturn, which would further reduce our cash flow from operations. This decline could cause us to modify our business plans, including reducing or delaying our exploration and development program and other capital expenditures.

**Federal Taxation**

We follow FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" (FIN 48), in our accounting and disclosure for uncertainty in tax positions. We have analyzed our filing positions in all jurisdictions where we are required to file income tax returns for the open tax years in such jurisdictions. Our federal income tax returns for the years subsequent to December 31, 2005 remain subject to examination. Our federal income tax return for the year ended December 31, 2006 is currently under examination by the Internal Revenue Service. Our income tax returns in major state income tax jurisdictions remain subject to examination for various periods subsequent to December 31, 2004. We currently believe that all significant filing positions are highly certain and that all of our significant income tax filing positions and deductions would be sustained upon audit. Therefore, we have no significant reserves for uncertain tax positions and no adjustments to such reserves were required upon adoption of FIN 48. Interest and penalties resulting from audits by tax authorities have been immaterial and are included in the provision for income taxes in the consolidated statements of operations.

At December 31, 2008, we had federal income tax net operating loss carryforwards of approximately \$41.5 million. We have established a \$23.0 million valuation allowance against a portion of the net operating loss carryforwards that we acquired in an acquisition due to a “change in control” limitation which will prevent us from fully realizing these carryforwards. The carryforwards expire from 2017 through 2021. The realization of these carryforwards depends on our ability to generate future taxable income in order to utilize these carryforwards. The deferred tax asset related to the decline in the value of the Stone shares is expected to be realized from future sales of these shares.

#### **Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and use assumptions that can affect the reported amounts of assets, liabilities, revenues or expenses.

*Successful efforts accounting.* We are required to select among alternative acceptable accounting policies. There are two generally acceptable methods for accounting for oil and gas producing activities. The full cost method allows the capitalization of all costs associated with finding oil and natural gas reserves, including certain general and administrative expenses. The successful efforts method allows only for the capitalization of costs associated with developing proven oil and natural gas properties as well as exploration costs associated with successful exploration projects. Costs related to exploration that are not successful are expensed when it is determined that commercially productive oil and gas reserves were not found. We have elected to use the successful efforts method to account for our oil and gas activities and we do not capitalize any of our general and administrative expenses.

*Oil and natural gas reserve quantities.* The determination of depreciation, depletion and amortization expense as well as impairments that are recognized on our oil and gas properties are highly dependent on the estimates of the proved oil and natural gas reserves attributable to our properties. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be precisely measured. The accuracy of any reserve estimate depends on the quality of available data, production history and engineering and geological interpretation and judgment. Because all reserve estimates are to some degree imprecise, the quantities of oil and natural gas that are ultimately recovered, production and operating costs, the amount and timing of future development expenditures and future oil and natural gas prices may all differ materially from those assumed in these estimates. The information regarding present value of the future net cash flows attributable to our proved oil and natural gas reserves are estimates only and should not be construed as the current market value of the estimated oil and natural gas reserves attributable to our properties. Thus, such information includes revisions of certain reserve estimates attributable to proved properties included in the preceding year’s estimates. Such revisions reflect additional information from subsequent activities, production history of the properties involved and any adjustments in the projected economic life of such properties resulting from changes in product prices. Any future downward revisions could adversely affect our financial condition, our borrowing ability, our future prospects and the value of our common stock.

*Impairment of oil and gas properties.* We evaluate our properties on a field area basis for potential impairment when circumstances indicate that the carrying value of an asset may not be recoverable. If impairment is indicated based on a comparison of the asset’s carrying value to its undiscounted expected future net cash flows, then it is recognized to the extent that the carrying value exceeds fair value. A significant amount of judgment is involved in performing these evaluations since the results are based on estimated future events. Expected future cash flows are determined using estimated future prices based on market based forward prices applied to projected future production volumes. The projected production volumes are based on the property’s proved and risk adjusted probable oil and natural gas reserve estimates at the end of the period. The oil and natural gas prices used for determining asset impairments will generally

differ from those used in the standardized measure of discounted future net cash flows because the standardized measure requires the use of actual prices on the last day of the period.

*Asset retirement obligations.* We have obligations to remove tangible equipment and facilities and to restore land at the end of oil and gas production operations. Our removal and restoration obligations are primarily associated with plugging and abandoning wells and removing and disposing of any surface equipment used in production operations. Estimating the future restoration and removal costs is difficult and requires management to make estimates and judgments because most of the removal obligations are many years in the future. Asset removal technologies and costs are constantly changing, as are regulatory, political, environmental, safety and public relations considerations.

*Stock-based compensation.* We follow the fair value based method prescribed in Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R") in accounting for equity-based compensation. Under the fair value based method, compensation cost is measured at the grant date based on the fair value of the award and is recognized on a straight-line basis over the award vesting period. We adopted SFAS 123R utilizing the modified prospective transition method and accordingly the financial results for periods prior to January 1, 2006 have not been adjusted.

*New accounting standards.* In December 2007, the Financial Accounting Standards Board ("the FASB") concurrently issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" ("SFAS 141R") and Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements — An Amendment of ARB No. 51" ("SFAS 160"). Both of these standards require measurements based on fair value and are effective for financial statements issued for fiscal years beginning after December 15, 2008. In addition, both of these standards also include expanded disclosure requirements. SFAS 141R establishes accounting and reporting standards for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. This statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS 141R will impact the accounting and disclosures for any business combinations the Company engages in after January 1, 2009. SFAS 160 amends Accounting Research Bulletin 51 to establish accounting and reporting standards for the noncontrolling or minority interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. This statement establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. SFAS 160 clarifies that all such transactions are equity transactions if the parent retains its controlling financial interest in the subsidiary. If there is a loss of control of the subsidiary, SFAS 160 requires the retained interest to be recorded at fair value. The Company currently does not expect adoption of this standard to have a significant impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities — An Amendment of FASB Statement No. 133" ("SFAS 161"). This standard applies to derivative instruments, nonderivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133. SFAS 161 does not change the accounting for derivatives and hedging activities, but requires enhanced disclosures concerning the effect on the financial statements from their use. SFAS 161 is effective for financial statements issued for fiscal years and interim



periods beginning after November 15, 2008. Currently, we do not expect adoption of SFAS 161 to have a material impact on our financial statements.

In September 2008, the FASB issued FASB Staff Position (“FSP”) EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.” Under the provisions of this standard, unvested awards of share-based payments with rights to receive dividends or dividend equivalents are considered “participating securities” for purposes of calculating earnings per share. As a result, these participating securities will be included in the weighted average number of shares outstanding used to determine basic earnings per share. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior period earnings per share data presented in financial reports after the effective date shall be adjusted retrospectively to conform with the provisions of this FSP. Early application is not permitted. Currently, we do not anticipate that adoption of the FSP will have a significant impact on our previously reported basic earnings per share amounts.

On October 10, 2008, the FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,” which clarifies how companies should apply the fair value measurement methodologies of SFAS 157 to financial assets when markets they trade in are illiquid or inactive. Under the provisions of this FSP, companies may use their own assumptions about future cash flows and appropriately risk-adjusted discount rates when relevant observable inputs are either not available or are based solely on transaction prices that reflect forced liquidations or distressed sales. This FSP was effective as of September 30, 2008. There was no impact to our financial position or results of operations from the adoption of this FSP.

#### **Related Party Transactions**

In recent years, we have not entered into any material transactions with our officers or directors apart from the compensation they are provided for their services. We also have not entered into any business transactions with our significant stockholders or any other related parties, except for the purchase of 2,250,000 shares of Bois d’Arc Energy’s common stock for \$35.9 million in August 2006.

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

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

Our financial condition, results of operations and capital resources are highly dependent upon the prevailing market prices of oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond our control. Factors influencing oil and natural gas prices include the level of global demand for crude oil, the foreign supply of oil and natural gas, the establishment of and compliance with production quotas by oil exporting countries, weather conditions which determine the demand for natural gas, the price and availability of alternative fuels and overall economic conditions. It is impossible to predict future oil and natural gas prices with any degree of certainty. Sustained weakness in oil and natural gas prices may adversely affect our financial condition and results of operations, and may also reduce the amount of oil and natural gas reserves that we can produce economically. Any reduction in our oil and natural gas reserves, including reductions due to price fluctuations, can have an adverse affect on our ability to obtain capital for our exploration and development activities. Similarly, any improvements in oil and natural gas prices can have a favorable impact on our financial condition, results of operations and capital resources. Based on our oil and natural gas production in 2008, a \$1.00 change in the price per barrel of oil would have resulted in a change in our cash flow for such period by approximately \$1.0 million and a \$1.00 change in the price per Mcf of natural gas would have changed our cash flow by approximately \$51.9 million.

We have hedged approximately 10% of our price risks associated with our expected natural gas sales in 2009. As of December 31, 2008, our outstanding natural gas price swap agreements had a fair value of \$14.0 million. The change in the fair value of our natural gas swaps that would result from a 10% change in commodities prices at December 31, 2008 would be \$0.2 million. Such a change in fair value could be a gain or a loss depending on whether prices increase or decrease.

Because our swap agreements have been designated as hedge derivatives, changes in their fair value generally are reported as a component of accumulated other comprehensive loss until the related sale of production occurs. At that time, the realized hedge derivative gain or loss is transferred to oil and gas sales in our consolidated income statement. None of our derivative contracts have margin requirements or collateral provisions that could require funding prior to the scheduled cash settlement date.

**Interest Rates**

At December 31, 2008, we had long-term debt of \$210.0 million. Of this amount, \$175.0 million bears interest at a fixed rate of 6<sup>7</sup>/<sub>8</sub>%. The fair market value of the fixed rate debt as of December 31, 2008 was \$134.8 million based on the market price of 77% of the face amount. At December 31, 2008, we had \$35.0 million outstanding under our bank credit facility, which was subject to variable rates of interest. Borrowings under the bank credit facility bear interest at a fluctuating rate that is tied to LIBOR or the corporate base rate, at our option. Any increase in these interest rates can have an adverse impact on our results of operations and cash flow. Based on borrowings outstanding at December 31, 2008, a 100 basis point change in interest rates would change our annual interest expense on our variable rate debt by approximately \$0.4 million. We had no interest rate derivatives outstanding during 2008 or at December 31, 2008.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our consolidated financial statements are included on pages F-1 to F-30 of this report.

We have prepared these financial statements in conformity with generally accepted accounting principles. We are 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 for us to make informed estimates and judgments based on currently available information on the effects of certain events and transactions.

Our independent public accountants, Ernst & Young LLP, are engaged to audit our financial statements and to express an opinion thereon. Their audit is conducted in accordance with auditing standards generally accepted in the United States to enable them to report whether the financial statements present fairly, in all material respects, our financial position and results of operations in accordance with accounting principles generally accepted in the United States.

The audit committee of our board of directors is comprised of three directors who are not our employees. This committee meets periodically with our independent public accountants and management. Our 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 our financial reporting.

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of disclosure controls and procedures.* Our Chief Executive Officer and Chief Financial Officer have evaluated, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures are adequate and effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

*Changes in internal control over financial reporting.* There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the fourth quarter of 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Management’s Report on Internal Control Over Financial Reporting**

The management of Comstock Resources, Inc. (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control over financial reporting is a process designed under the supervision of the Company’s Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external purposes in accordance with generally accepted accounting principles.

As of December 31, 2008, management assessed the effectiveness of the Company’s internal control over financial reporting based on the criteria for effective internal control over financial reporting established in “Internal Control — Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2008, based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2008. The report, which expresses unqualified opinions on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2008 is included below.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Comstock Resources, Inc.

We have audited Comstock Resources, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Comstock Resources, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Comstock Resources, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Comstock Resources, Inc. and subsidiaries as of December 31, 2007 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 25, 2009 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Dallas, Texas  
February 25, 2009

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item is incorporated herein by reference to "Business — Directors and Executive Officers" in this Form 10-K and to our definitive proxy statement which will be filed with the SEC within 120 days after December 31, 2008.

*Code of Ethics.* We have adopted a Code of Business Conduct and Ethics that is applicable to all of our directors, officers and employees as required by New York Stock Exchange rules. We have also adopted a Code of Ethics for Senior Financial Officers that is applicable to our Chief Executive Officer and Senior Financial Officers. Both the Code of Business Conduct and Ethics and Code of Ethics for Senior Financial Officers may be found on our website at [www.comstockresources.com](http://www.comstockresources.com). Both of these documents are also available, without charge, to any stockholder upon request to: Comstock Resources, Inc., Attn: Investor Relations, 5300 Town and Country Blvd., Suite 500, Frisco, Texas 75034, (972) 668-8800. We intend to disclose any amendments or waivers to these codes that apply to our Chief Executive Officer and senior financial officers on our website in accordance with applicable SEC rules. Please see the definitive proxy statement for our 2009 annual meeting, which will be filed with the SEC within 120 days of December 31, 2008, for additional information regarding our corporate governance policies.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated herein by reference to our definitive proxy statement which will be filed with the SEC within 120 days after December 31, 2008.

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

The information required by this item is incorporated herein by reference to our definitive proxy statement which will be filed with the SEC within 120 days after December 31, 2008.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTORS INDEPENDENCE**

The information required by this item is incorporated herein by reference to our definitive proxy statement which will be filed with the SEC within 120 days after December 31, 2008.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated herein by reference to our definitive proxy statement which will be filed with the SEC within 120 days after December 31, 2008.

**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES***(a) Financial Statements:*

1. The following consolidated financial statements and notes of Comstock Resources, Inc. are included on Pages F-2 to F-30 of this report:

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2007 and 2008	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2006, 2007 and 2008	F-4
Consolidated Statements of Stockholders' Equity and Other Comprehensive Income for the Years Ended December 31, 2006, 2007 and 2008	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, 2007 and 2008	F-6
Notes to Consolidated Financial Statements	F-7

2. All financial statement schedules are omitted because they are not applicable, or are immaterial or the required information is presented in the consolidated financial statements or the related notes.

*(b) Exhibits:*

The exhibits to this report required to be filed pursuant to Item 15 (c) are listed below.

<b>Exhibit No.</b>	<b>Description</b>
2.1	Purchase and Sale Agreement between SWEPI LP and Comstock Oil and Gas, LP dated November 26, 2007 (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K dated November 26, 2007).
3.1(a)	Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to our 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 by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to our Registration Statement on Form S-3, dated October 25, 1996).
4.1	Rights Agreement dated as of December 14, 2000, by and between Comstock and American Stock Transfer and Trust Company, as Rights Agent (incorporated herein by reference to Exhibit 1 to our Registration Statement on Form 8-A dated January 11, 2001).
4.2	Certificate of Designation, Preferences and Rights of Series B Junior Participating Preferred Stock (incorporated by reference to Exhibit 2 to our Registration Statement on Form 8-A dated January 11, 2001).
4.3	Indenture dated February 25, 2004 between Comstock, the guarantors and The Bank of New York Trust Company, N.A., Trustee for debt securities issued by Comstock Resources, Inc. (incorporated by reference to Exhibit 4.6 to our Annual Report on Form 10-K for the year ended December 31, 2003).
4.4	First Supplemental Indenture, dated February 25, 2004 between Comstock, the guarantors and The Bank of New York Trust Company, N.A., Trustee for the 6 <sup>7</sup> / <sub>8</sub> % Senior Notes due 2012 (incorporated by reference to Exhibit 4.7 to our Annual Report on Form 10-K for the year ended December 31, 2003).

<u>Exhibit No.</u>	<u>Description</u>
4.5	Second Supplemental Indenture, dated March 11, 2004 between Comstock, the guarantors and The Bank of New York Trust Company, N.A. for the 6 <sup>7</sup> / <sub>8</sub> % Senior Notes due 2012 (incorporated by reference to Exhibit 4.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
4.6	Third Supplemental Indenture dated July 16, 2004 between Comstock, the guarantors and The Bank of New York Trust Company, N.A., Trustee (incorporated by reference to Exhibit 4.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
4.7	Fourth Supplemental Indenture dated May 20, 2005 between Comstock, the guarantors and The Bank of New York Trust Company, N.A., Trustee (incorporated by reference to Exhibit 4.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.1#	Employment Agreement dated December 22, 2008 by and between Comstock and M. Jay Allison (incorporated by reference to Exhibit 99.1 to our Current Report on Form 8-K dated December 22, 2008).
10.2#	Employment Agreement dated December 22, 2008 by and between Comstock and Roland O. Burns (incorporated by reference to Exhibit 99.2 to our Current Report on Form 8-K dated December 22, 2008).
10.3#	Comstock Resources, Inc. 1999 Long-term Incentive Plan (As restated on April 1, 2001) (incorporated by reference to Exhibit 10.8 to our Annual Report on Form 10-K for the year ended December 31, 2004).
10.4#	Amendment No. 2 dated April 7, 2004 to the Comstock Resources, Inc. 1999 Long-term Incentive Plan (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
10.5#	Form of Nonqualified Stock Option Agreement between Comstock and certain officers and directors of Comstock (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the year ended June 30, 1999).
10.6#	Form of Restricted Stock Agreement between Comstock and certain officers of Comstock (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
10.7	Warrant Agreement dated July 31, 2001 by and between Comstock and Gary W. Blackie and Wayne L. Laufer (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
10.8	Lease between Stonebriar I Office Partners, Ltd. and Comstock Resources, Inc. dated May 6, 2004 (incorporated by reference to Exhibit 10.24 to our Annual Report on Form 10-K for the year ended December 31, 2004).
10.9	First Amendment to the Lease Agreement dated August 25, 2005, between Stonebriar I Office Partners, Ltd. and Comstock Resources, Inc. (incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K for the year ended December 31, 2005).
10.10*	Second Amendment to the Lease Agreement dated October 15, 2007 between Stonebriar I Office Partners, Ltd. and Comstock Resources, Inc.
10.11*	Third Amendment to the Lease Agreement dated September 30, 2008 between Stonebriar I Office Partners, Ltd. and Comstock Resources, Inc.
10.12	Second Amended and Restated Credit Agreement, dated December 15, 2006, among Comstock, as the borrower, the lenders from time to time thereto, Bank of Montreal, as administrative agent and issuing bank, Bank of America, N.A., as syndication agent and Comerica Bank, Fortis Capital Corp., and Union Bank of California, N.A. as co-documentation agents (incorporated by reference to Exhibit 10.1 to our Annual Report on Form 10-K for the year ended December 31, 2006).

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<u>Exhibit No.</u>	<u>Description</u>
10.13	First Amendment to Second Amended and Restated Credit Agreement dated April 30, 2008, among Comstock as the borrower, the lenders, from time to time thereto, Bank of Montreal, as administrative agent and issuing bank, Bank of America, N.A., co-syndication agent and Comerica Bank, Fortis Capital Corp., and Union Bank of California, N.A. as co-documentation agents (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).
10.14	Stockholder Agreement between Stone Energy Corporation and Comstock Resources, Inc. dated April 30, 2008 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated April 30, 2008).
21*	Subsidiaries of the Company.
23.1*	Consent of Ernst & Young LLP.
23.2*	Consent of Independent Petroleum Engineers.
31.1*	Chief Executive Officer certification under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Chief Financial Officer certification under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Chief Executive Officer certification under Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Chief Financial Officer certification under Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith.

+ Furnished herewith.

# Management contract or compensatory plan document.



**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 25, 2009

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 25, 2009
<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 25, 2009
<u>/s/ DAVID K. LOCKETT</u> David K. Lockett	Director	February 25, 2009
<u>/s/ CECIL E. MARTIN, JR.</u> Cecil E. Martin, Jr.	Director	February 25, 2009
<u>/s/ DAVID W. SLEDGE</u> David W. Sledge	Director	February 25, 2009
<u>/s/ NANCY E. UNDERWOOD</u> Nancy E. Underwood	Director	February 25, 2009

COMSTOCK RESOURCES, INC.

FINANCIAL STATEMENTS

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Comstock Resources, Inc.

We have audited the accompanying consolidated balance sheets of Comstock Resources, Inc. and subsidiaries as of December 31, 2007 and 2008, and the related consolidated statements of operations, stockholders' equity and other comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008. 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 the standards of the Public Company Accounting Oversight Board (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 consolidated financial position of Comstock Resources, Inc. and subsidiaries at December 31, 2007 and 2008, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Comstock Resources, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2009 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Dallas, Texas  
February 25, 2009

COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
As of December 31, 2007 and 2008

	December 31,	
	2007	2008
(In thousands)		
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 5,565	\$ 6,281
Accounts Receivable:		
Oil and gas sales	36,245	34,401
Joint interest operations	12,406	7,876
Marketable Securities	—	48,868
Derivative Financial Instruments	—	13,974
Other Current Assets	3,987	18,628
Total current assets	58,203	130,028
Property and Equipment:		
Unevaluated oil and gas properties	5,804	116,489
Oil and gas properties, successful efforts method	1,812,637	1,960,544
Other	5,013	6,162
Accumulated depreciation, depletion and amortization	(512,895)	(638,480)
Net property and equipment	1,310,559	1,444,715
Other Assets	3,943	3,147
Assets of Discontinued Operations	981,682	—
	<u>\$ 2,354,387</u>	<u>\$ 1,577,890</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts Payable	\$ 71,579	\$ 99,460
Accrued Expenses	11,888	14,995
Total current liabilities	83,467	114,455
Long-term Debt	680,000	210,000
Deferred Income Taxes Payable	92,088	185,870
Reserve for Future Abandonment Costs	7,512	5,480
Liabilities of Discontinued Operations	452,235	—
Minority Interest in Discontinued Operations	267,441	—
Total liabilities	1,582,743	515,805
Commitments and Contingencies		
Stockholders' Equity:		
Common stock — \$0.50 par, 50,000,000 shares authorized, 45,428,095 and 46,442,595 shares issued and outstanding at December 31, 2007 and 2008, respectively	22,714	23,221
Additional paid-in capital	386,986	415,875
Accumulated other comprehensive income	—	9,083
Retained earnings	361,944	613,906
Total stockholders' equity	771,644	1,062,085
	<u>\$ 2,354,387</u>	<u>\$ 1,577,890</u>

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, 2006, 2007 and 2008

	2006	2007	2008
	(In thousands, except per share amounts)		
<b>Revenues:</b>			
Oil and gas sales	\$ 257,218	\$ 331,613	\$ 563,749
Gain on sale of assets	—	—	26,560
Total revenues	<u>257,218</u>	<u>331,613</u>	<u>590,309</u>
<b>Operating expenses:</b>			
Oil and gas operating	53,903	64,791	86,730
Exploration	1,424	7,039	5,032
Depreciation, depletion and amortization	75,278	125,349	182,179
Impairment of oil and gas properties	8,812	482	922
General and administrative, net	20,395	27,813	32,266
Total operating expenses	<u>159,812</u>	<u>225,474</u>	<u>307,129</u>
Operating income from continuing operations	97,406	106,139	283,180
<b>Other income (expenses):</b>			
Interest income	682	877	1,537
Other income	184	144	119
Interest expense	(20,733)	(32,293)	(25,336)
Marketable securities impairment	—	—	(162,672)
Gain on derivatives	10,716	—	—
Total other income (expenses)	<u>(9,151)</u>	<u>(31,272)</u>	<u>(186,352)</u>
Income from continuing operations before income taxes	88,255	74,867	96,828
Provision for income taxes	(34,190)	(29,223)	(38,611)
Income from continuing operations	54,065	45,644	58,217
Income from discontinued operations	16,600	23,257	193,745
Net income	<u>\$ 70,665</u>	<u>\$ 68,901</u>	<u>\$ 251,962</u>
<b>Basic net income per share:</b>			
Continuing operations	\$ 1.28	\$ 1.05	\$ 1.31
Discontinued operations	0.39	0.54	4.35
	<u>\$ 1.67</u>	<u>\$ 1.59</u>	<u>\$ 5.66</u>
<b>Diluted net income per share:</b>			
Continuing operations	\$ 1.24	\$ 1.03	\$ 1.28
Discontinued operations	0.37	0.51	4.25
	<u>\$ 1.61</u>	<u>\$ 1.54</u>	<u>\$ 5.53</u>
<b>Weighted average shares outstanding:</b>			
Basic	42,220	43,415	44,524
Diluted	<u>43,556</u>	<u>44,405</u>	<u>45,440</u>

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, 2006, 2007 and 2008**

	Common Shares	Common Stock – Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	(In thousands)					
Balance at December 31, 2005	42,969	\$ 21,485	\$ 338,996	\$ 222,378	\$ —	\$ 582,859
Exercise of stock options and warrants	1,083	541	15,407	—	—	15,948
Stock-based compensation	343	171	6,702	—	—	6,873
Tax benefit of stock-based compensation	—	—	6,218	—	—	6,218
Net income	—	—	—	70,665	—	70,665
Balance at December 31, 2006	44,395	22,197	367,323	293,043	—	682,563
Exercise of stock options and warrants	596	298	2,571	—	—	2,869
Stock-based compensation	437	219	10,570	—	—	10,789
Tax benefit of stock-based compensation	—	—	6,522	—	—	6,522
Net income	—	—	—	68,901	—	68,901
Balance at December 31, 2007	45,428	22,714	386,986	361,944	—	771,644
Exercise of stock options and warrants	591	295	8,033	—	—	8,328
Stock-based compensation	423	212	12,051	—	—	12,263
Tax benefit of stock-based compensation	—	—	8,805	—	—	8,805
Net income	—	—	—	251,962	—	251,962
Unrealized hedging gain, net of income taxes	—	—	—	—	9,083	9,083
Total comprehensive income	—	—	—	—	9,083	261,045
Balance at December 31, 2008	46,442	\$ 23,221	\$ 415,875	\$ 613,906	\$ 9,083	\$ 1,062,085

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, 2006, 2007 and 2008

	2006	2007 (In thousands)	2008
<b>CASH FLOWS FROM CONTINUING OPERATIONS —</b>			
Cash Flows From Operating Activities:			
Net income	\$ 70,665	\$ 68,901	\$ 251,962
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from discontinued operations	(16,600)	(23,257)	(193,745)
Gain on sale of assets	—	—	(26,560)
Impairment of marketable securities	—	—	162,672
Impairment of oil and gas properties	8,812	482	922
Deferred income taxes	31,356	25,543	43,620
Dry hole costs and leasehold impairments	281	6,846	4,113
Depreciation, depletion and amortization	75,278	125,349	182,179
Debt issuance costs amortization	1,406	810	810
Stock-based compensation	6,873	10,789	12,263
Excess tax benefit from stock-based compensation	(6,218)	(6,522)	(8,805)
Gain on derivatives	(10,716)	—	—
Decrease (increase) in accounts receivable	6,233	(11,605)	6,418
Decrease (increase) in other current assets	1,162	(230)	(9,646)
Increase in accounts payable and accrued expenses	17,637	4,433	24,330
Net cash provided by operating activities from continuing operations	<u>186,169</u>	<u>201,539</u>	<u>450,533</u>
Cash Flows From Investing Activities:			
Capital expenditures and acquisitions	(280,979)	(531,493)	(418,730)
Proceeds from asset sales	—	—	129,536
Payments to settle derivatives	(526)	—	—
Net cash used for investing activities from continuing operations	<u>(281,505)</u>	<u>(531,493)</u>	<u>(289,194)</u>
Cash Flows From Financing Activities:			
Borrowings	119,000	325,000	85,000
Principal payments on debt	(7,000)	—	(555,000)
Debt issuance costs	(1,284)	(34)	(16)
Proceeds from common stock issuances	15,948	2,869	8,328
Excess tax benefit from stock based compensation	6,218	6,522	8,805
Net cash provided by (used for) financing activities from continuing operations	<u>132,882</u>	<u>334,357</u>	<u>(452,883)</u>
Net cash provided (used for) continuing operations	<u>37,546</u>	<u>4,403</u>	<u>(291,544)</u>
<b>CASH FLOWS FROM DISCONTINUED OPERATIONS —</b>			
Net Cash Provided by Operating Activities			
	180,992	235,412	240,332
Cash Flows From Investing Activities:			
Proceeds from sale of Bois d'Arc Energy, net of income taxes	—	—	292,260
Capital expenditures	(248,246)	(213,878)	(159,368)
Net cash provided by (used for) investing activities	<u>(248,246)</u>	<u>(213,878)</u>	<u>132,892</u>
Net Cash Provided by (Used for) Financing Activities			
Net cash provided by (used for) discontinued operations	<u>(36,407)</u>	<u>(66)</u>	<u>292,260</u>
Net increase in cash and cash equivalents	1,139	4,337	716
Cash and cash equivalents, beginning of year	89	1,228	5,565
Cash and cash equivalents, end of year	<u>\$ 1,228</u>	<u>\$ 5,565</u>	<u>\$ 6,281</u>

The accompanying notes are an integral part of these statements.

## COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**(1) Summary of Significant Accounting Policies**

Accounting policies used by Comstock Resources, Inc. reflect oil and natural gas industry practices and conform to accounting principles generally accepted in the United States of America.

***Basis of Presentation and Principles of Consolidation***

Comstock Resources is engaged in oil and natural gas exploration, development and production, and the acquisition of producing oil and natural gas properties. The consolidated financial statements include the accounts of Comstock Resources, Inc. and its wholly owned or controlled subsidiaries (collectively, "Comstock" or "the Company"). During the years ended December 31, 2007 and 2008, the consolidated financial statements also include the accounts of a variable interest entity where the Company is the primary beneficiary of the arrangements. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company accounts for its undivided interest in properties using the proportionate consolidation method, whereby its share of assets, liabilities, revenues and expenses are included in its financial statements.

***Discontinued Offshore Operations***

In July 2004, the Company contributed its interests in its offshore Gulf of Mexico properties and assigned to Bois d'Arc Energy, LLC \$83.2 million of related debt in exchange for an approximate 60% ownership in Bois d'Arc Energy, LLC. On May 10, 2005 Bois d'Arc Energy, LLC was converted to a corporation and changed its name to Bois d'Arc Energy, Inc. ("Bois d'Arc Energy"). On May 11, 2005, Bois d'Arc Energy completed an initial public offering of 13,500,000 shares of common stock at \$13.00 per share to the public. As a result of Bois d'Arc Energy's conversion to a corporation and the offering, Comstock's ownership in Bois d'Arc Energy decreased to 48%. In 2006, Comstock acquired 2,285,000 additional shares of Bois d'Arc Energy for \$36.5 million, which increased its ownership of Bois d'Arc Energy's common stock to 49%. Comstock also had voting agreements with each of its directors that owned shares of Bois d'Arc Energy's common stock pursuant to which Comstock had the right to vote such shares on behalf of the directors. As a result, the Company obtained voting control of Bois d'Arc Energy through the combined share ownership by Comstock and the members of its board of directors. Upon obtaining voting control of Bois d'Arc Energy, Comstock began including Bois d'Arc Energy in its financial statements as a consolidated subsidiary effective on January 1, 2006.

On August 28, 2008, Bois d'Arc Energy completed a merger with Stone Energy Corporation ("Stone") pursuant to which each outstanding share of the common stock of Bois d'Arc Energy was exchanged for cash in the amount of \$13.65 per share and 0.165 shares of Stone common stock. As a result of this transaction, Comstock received net proceeds of \$439.0 million in cash and 5,317,069 shares of Stone common stock in exchange for its interest in Bois d'Arc Energy. In connection with the merger, Comstock agreed not to sell its shares of Stone common stock prior to August 28, 2009 and to certain other restrictions relating to its ownership of the Stone common stock.

As a result of the merger of Bois d'Arc Energy and Stone, the consolidated financial statements and the related notes thereto present the Company's offshore operations as a discontinued operation. No general and administrative or interest costs incurred by Comstock have been allocated to the discontinued operations during the periods presented. Unless indicated otherwise, the amounts presented in the accompanying notes to the consolidated financial statements relate to the Company's continuing operations.



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

The merger of Bois d'Arc Energy with Stone resulted in Comstock recognizing a gain on the disposal of the discontinued operations in the three months ended September 30, 2008 of \$158.1 million, after income taxes of \$85.3 million and the Company's share of transaction-related costs incurred by Bois d'Arc Energy of \$11.7 million. Transaction-related costs incurred by Bois d'Arc Energy included accounting, legal and investment banking fees, change-in-control and other compensation costs that became obligations as a result of the merger.

Income from discontinued operations is comprised of the following:

	For the Year Ended December 31,		
	2006	2007	2008
	(In thousands)		
Oil and gas sales	\$ 254,710	\$ 355,460	\$ 360,719
Total operating expenses	(163,758)	(228,364)	(198,894)
Operating income from discontinued operations	90,952	127,096	161,825
Other income (expense)	(5,769)	(7,980)	(2,630)
Provision for income taxes	(40,149)	(55,954)	(76,626)
Minority interest in earnings	(28,434)	(39,905)	(46,883)
Income from discontinued operations, excluding gain on sale	16,600	23,257	35,686
Gain on sale of discontinued operations, net of income taxes of \$85,327	—	—	158,059
Income from discontinued operations	<u>\$ 16,600</u>	<u>\$ 23,257</u>	<u>\$ 193,745</u>

Assets and liabilities of discontinued operations as of December 31, 2007 were as follows:

	December 31, 2007
	(In thousands)
Current Assets	\$ 66,302
Net Property and Equipment	912,316
Other Assets	3,064
Total Assets of Discontinued Operations	<u>\$ 981,682</u>
Current Liabilities	\$ 47,333
Long-term Debt	80,000
Deferred Income Taxes Payable	279,808
Reserve for Future Abandonment Costs	45,094
Liabilities of Discontinued Operations	<u>\$ 452,235</u>
Minority Interest in Bois d'Arc Energy	<u>\$ 267,441</u>

**Reclassifications**

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

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

***Use of Estimates in the Preparation of Financial Statements***

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 amounts could differ from those estimates. Changes in the future estimated oil and natural gas reserves or the estimated future cash flows attributable to the reserves that are utilized for impairment analysis could have a significant impact on the future results of operations.

***Concentration of Credit Risk and Accounts Receivable***

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents, accounts receivable and derivative financial instruments. The Company places its cash with high credit quality financial institutions and its derivative financial instruments with financial institutions and other firms that management believes have high credit ratings. Substantially all of the Company's accounts receivable are due from either purchasers of oil and gas or participants in oil and gas wells for which the Company serves as the operator. Generally, operators of oil and gas wells have the right to offset future revenues against unpaid charges related to operated wells. Oil and gas sales are generally unsecured. The Company has not had any significant credit losses in the past and believes its accounts receivable are fully collectible. Accordingly, no allowance for doubtful accounts has been provided. Schedule II, Valuation and Qualifying Accounts, was omitted because there were no allowances or other valuation or qualifying accounts.

***Marketable Securities***

Marketable securities are recorded at fair value, and temporary unrealized holding gains and losses are recorded, net of income tax, as a separate component of accumulated other comprehensive income. Unrealized losses are charged against net earnings when a decline in fair value is determined to be other than temporary. Comstock considered several factors to determine whether a loss is other than temporary. These factors include but are not limited to: (i) the length of time a security is in an unrealized loss position, (ii) the extent to which fair value is less than cost, (iii) the financial condition and near term prospects of the issuer and (iv) the ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. Realized gains and losses are accounted for using the specific identification method.

The Company received shares of Stone common stock as part of the proceeds from the sale of its interest in Bois d'Arc Energy. The Company does not exert influence over the operating and financial policies of Stone and has classified its investment in these shares as an available-for-sale security in the accompanying consolidated balance sheet. The fair value of the Stone common stock includes a discount to the public market price to reflect certain trading restrictions. The Company utilizes the specific identification method to determine the cost of the securities sold.

When the Stone shares were acquired in August 2008 the value was determined to be \$211.4 million by an independent valuation specialist. As of December 31, 2008 the estimated fair value of the Stone shares had fallen to \$48.9 million. Comstock determined that this decline in the fair value of the Stone common stock in 2008 was not temporary, which resulted in the recognition of an impairment charge of \$162.7 million before income taxes.

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

**Other Current Assets**

Other current assets at December 31, 2007 and 2008 consist of the following:

	As of December 31,	
	2007	2008
	(In thousands)	
Drilling advances	\$ 902	\$ 5,273
Prepaid expenses	181	358
Pipe inventory	1,520	6,172
Current income taxes receivable	1,367	1,824
Deferred income tax asset	—	4,995
Other	17	6
	<u>\$ 3,987</u>	<u>\$18,628</u>

**Property and Equipment**

The Company follows the successful efforts method of accounting for its oil and natural gas properties. Acquisition costs for proved oil and natural gas properties, costs of drilling and equipping productive wells, and costs of unsuccessful development wells are capitalized and amortized on an equivalent unit-of-production basis over the life of the remaining related oil and gas reserves. Equivalent units are determined by converting oil to natural gas at the ratio of six barrels of oil for one thousand cubic feet of natural gas. Cost centers for amortization purposes are determined on a field area basis. Costs incurred to acquire oil and gas leasehold are capitalized. Unproved oil and gas properties are periodically assessed and any impairment in value is charged to exploration expense. The estimated future costs of dismantlement, restoration, plugging and abandonment of oil and gas properties and related facilities disposal are capitalized when asset retirement obligations are incurred and amortized as part of depreciation, depletion and amortization expense. The costs of unproved properties which are determined to be productive are transferred to proved oil and gas properties and amortized on an equivalent unit-of-production basis. 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. Exploratory drilling costs are evaluated within a one-year period after the completion of drilling.

The Company assesses the need for an impairment of the costs capitalized for its oil and gas properties on a property or cost center basis. If impairment is indicated based on undiscounted expected future cash flows attributable to the property, then a provision for impairment is recognized to the extent that net capitalized costs exceed discounted expected future cash flows. Expected future cash flows are determined using estimated future prices based on market based forward prices applied to projected future production volumes. The projected production volumes are based on the property's proved and risk adjusted probable oil and natural gas reserve estimates at the end of the period. The oil and natural gas prices used for determining asset impairments will generally differ from those used in the standardized measure of discounted future net cash flows because the standardized measure requires the use of actual prices on the last day of the period. The Company recognized impairment charges related to its oil and gas properties of \$8.8 million, \$0.5 million and \$0.9 million in 2006, 2007, and 2008, respectively.

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

Other property and equipment consists primarily of gas gathering systems, computer equipment, furniture and fixtures and interests in private aircraft which are depreciated over estimated useful lives ranging from five to 31<sup>1/2</sup> years on a straight-line basis.

**Asset Retirement Obligation**

The Company records a liability in the period in which an asset retirement obligation (“ARO”) is incurred, in an amount equal to the discounted estimated fair value of the obligation that is capitalized. Thereafter this liability is accreted up to the final retirement cost. Accretion of the discount is included as part of depreciation, depletion and amortization in the accompanying consolidated financial statements. The Company’s ARO’s relate to future plugging and abandonment costs of its oil and gas properties and related facilities disposal.

The following table summarizes the changes in the Company’s total estimated liability:

	<u>2006</u>	<u>2007</u> (In thousands)	<u>2008</u>
Beginning asset retirement obligations	\$ 3,206	\$ 9,052	\$ 7,512
New wells placed on production and changes in estimates	5,641	(2,179)	(1,537)
Acquisition liabilities assumed	31	774	—
Liabilities settled and assets disposed of	(34)	(684)	(939)
Accretion expense	208	549	444
Ending asset retirement obligations	<u>\$ 9,052</u>	<u>\$ 7,512</u>	<u>\$ 5,480</u>

**Other Assets**

Other assets primarily consist of deferred costs associated with issuance of the Company’s senior notes and bank credit facility. These costs are amortized over the eight year life of the senior notes and the life of the bank credit facility on a straight-line basis which approximates the amortization that would be calculated using an effective interest rate method.

**Stock-based Compensation**

The Company follows the fair value based method prescribed in Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”) in accounting for equity-based compensation. Under the fair value based method, compensation cost is measured at the grant date based on the fair value of the award and is recognized on a straight-line basis over the award vesting period. Excess tax benefits on stock-based compensation are recognized as a part of cash flows from financing activities. Comstock’s excess income tax benefit realized from tax deductions associated with stock-based compensation totaled \$6.2 million, \$6.5 million and \$8.8 million for the years ended December 31, 2006, 2007 and 2008, respectively.

**Segment Reporting**

The Company presently operates in one business segment, the exploration and production of oil and natural gas.

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

***Derivative Instruments and Hedging Activities***

The Company follows Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which requires that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company estimates fair value based on quotes obtained from the counterparties to the derivative contract. The fair value of derivative contracts that expire in less than one year are recognized as current assets or liabilities. Those that expire in more than one year are recognized as long-term assets or liabilities. Derivative financial instruments that are not accounted for as hedges are adjusted to fair value through income. If the derivative is designated as a cash flow hedge, changes in fair value are recognized in other comprehensive income until the hedged item is recognized in earnings.

***Major Purchasers***

In 2008, the Company had three purchasers of its oil and natural gas production that accounted for 14%, 12% and 11%, respectively, of total oil and gas sales. In 2007, the Company had three purchasers of its oil and natural gas production that accounted for 15%, 11% and 11%, respectively, of total oil and gas sales. In 2006, the Company had two purchasers that accounted for 12% and 11%, respectively, of total oil and gas sales. The loss of any of these customers would not have a material adverse effect on the Company as there is an available market for its crude oil and natural gas production from other purchasers.

***Revenue Recognition and Gas Balancing***

Comstock utilizes the sales method of accounting for oil and natural gas revenues whereby revenues are recognized at the time of delivery based on the amount of oil or natural gas sold to purchasers. The amount of oil or natural gas sold may differ from the amount to which the Company is entitled based on its revenue interests in the properties. The Company did not have any significant imbalance positions at December 31, 2006, 2007 or 2008.

***General and Administrative Expenses***

General and administrative expenses are reported net of reimbursements of overhead costs that are allocated to working interest owners of the oil and gas properties operated by the Company of \$6.5 million, \$9.3 million and \$10.1 million in 2006, 2007 and 2008, respectively.

***Income Taxes***

The Company accounts for income taxes using the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis, as well as the future tax consequences attributable to the future utilization of existing tax net operating loss and other types of carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

**Earnings Per Share**

Basic and diluted earnings per share for 2006, 2007 and 2008 were determined as follows:

	2006			2007			2008		
	Income	Shares	Per Share	Income	Shares	Per Share	Income	Shares	Per Share
<i>Basic Earnings Per Share:</i>									
Income From Continuing Operations	\$ 54,065	42,220	\$ 1.28	\$ 45,644	43,415	\$ 1.05	\$ 58,217	44,524	\$ 1.31
Income From Discontinued Operations	16,600	42,220	0.39	23,257	43,415	0.54	193,745	44,524	4.35
Net Income	<u>\$ 70,665</u>	<u>42,220</u>	<u>\$ 1.67</u>	<u>\$ 68,901</u>	<u>43,415</u>	<u>\$ 1.59</u>	<u>\$ 251,962</u>	<u>44,524</u>	<u>\$ 5.66</u>
<i>Diluted Earnings Per Share:</i>									
Income from Continuing Operations	\$ 54,065	42,220	\$ 1.28	\$ 45,644	43,415	\$ 1.05	\$ 58,217	44,524	\$ 1.31
Effect of Dilutive Securities:									
Stock Grants and Options	—	1,336	—	—	990	—	—	916	—
Income from Continuing Operations With Assumed Conversions	\$ 54,065	43,556	\$ 1.24	\$ 45,644	44,405	\$ 1.03	\$ 58,217	45,440	\$ 1.28
Income from Discontinued Operations	16,600	43,556	0.38	23,257	44,405	0.52	193,745	45,440	4.26
Effect of Dilutive Securities:									
Stock Grants and Options	(488)	—	—	(697)	—	—	(839)	—	—
Income from Discontinued Operations with Assumed Conversions	16,112	43,556	\$ 0.37	22,560	44,405	\$ 0.51	192,906	45,440	\$ 4.25
Net Income	<u>\$ 70,177</u>	<u>43,556</u>	<u>\$ 1.61</u>	<u>\$ 68,204</u>	<u>44,405</u>	<u>\$ 1.54</u>	<u>\$ 251,123</u>	<u>45,440</u>	<u>\$ 5.53</u>

Stock options and warrants to purchase common stock at exercise prices in excess of the average actual stock price for the period that were anti-dilutive and that were excluded from the determination of diluted earnings per share are as follows:

	2006	2007	2008
		(In thousands except per share data)	
Weighted average anti-dilutive stock options		117	40
Weighted average exercise price	\$ 32.52	\$ 32.60	\$ 54.36

**Fair Value Measurements**

In September 2006, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). This statement establishes a framework for fair value measurements in the financial statements by providing a single definition of fair value, provides guidance on the methods used to estimate fair value, and increases disclosures about estimates of fair value. The Company adopted SFAS 157 and its related amendments for financial assets and liabilities effective as of January 1, 2008. SFAS 157 will be effective for non-financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of the adoption of these provisions of this SFAS on its consolidated financial statements.

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

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 establishes a three-level hierarchy for disclosure to show the extent and level of judgment used to estimate fair value measurements:

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

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

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

At January 1, 2008, the Company had no financial assets and liabilities that were accounted for at fair value. Accordingly, adoption of SFAS 157 had no impact on the carrying amounts of the Company's assets and liabilities. As of December 31, 2008, the Company held certain items that are required to be measured at fair value on a recurring basis. These included cash equivalents held in money market funds, marketable securities comprised of shares of Stone common stock, and derivative instruments in the form of natural gas price swap agreements. The fair value of the Stone common stock recorded by the Company includes a discount from the quoted public market price to reflect the impact of certain trading restrictions. The Company determined the impact of the trading restriction on the fair value of the Stone common stock utilizing a valuation specialist who utilized a standard option pricing model based on inputs that are either readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Company has categorized the Stone common stock as Level 2. The Company's natural gas price swap agreements are not traded on a public exchange. The value of natural gas price swap agreements is determined utilizing a discounted cash flow model based on inputs that are not readily available in public markets and, accordingly, these swap agreements have been categorized as Level 3 within the valuation hierarchy.

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

The following table summarizes financial assets accounted for at fair value as of December 31, 2008:

	Carrying Value Measured at Fair Value at December 31, 2008	Level 1	Level 2	Level 3
		(In thousands)		
<b>Items measured at fair value on a recurring basis:</b>				
Cash equivalents — money market funds	\$ 6,281	\$6,281	\$ —	\$ —
Marketable securities — Stone common stock	48,868	—	48,868	—
Derivative financial instruments	13,974	—	—	13,974
<b>Total assets</b>	<u>\$69,123</u>	<u>\$6,281</u>	<u>\$48,868</u>	<u>\$13,974</u>

The following table summarizes the changes in the fair values of the natural gas swap derivative financial instruments, which are Level 3 liabilities, for the twelve months ended December 31, 2008:

	(In thousands)
Balance at January 1, 2008	\$ —
Purchases and settlements (net)	4,810
<b>Total realized or unrealized gains (losses):</b>	
Realized loss included in earnings	(4,810)
Unrealized gain included in other comprehensive income	13,974
Balance at December 31, 2008	<u>\$ 13,974</u>

The following table presents the carrying amounts and estimated fair value of the Company's other financial instruments as of December 31, 2007 and 2008:

	2007		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Long-term debt, including current portion	\$ 680,000	\$ 670,813	\$ 210,000	\$ 169,750

The fair market value of the fixed rate debt was based on the market prices as of December 31, 2007 and 2008. The fair market value of the floating rate debt approximates its carrying value.

**Statements of Cash Flows**

For the purpose of the consolidated statements of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2008 the Company's cash investments consisted of prime shares in an institutional preferred money market fund.



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

Cash payments made for interest and income taxes for the years ended December 31, 2006, 2007 and 2008, respectively, were as follows:

	2006	2007	2008
	(In thousands)		
Cash Payments:			
Interest payments	\$ 18,992	\$ 31,864	\$ 27,022
Income tax payments	\$ 6,306	\$ 3,492	\$ 140,198

The Company capitalizes interest on its unevaluated oil and gas property costs during periods when it is conducting exploration activity on this acreage. The Company capitalized interest of \$0.2 million and \$2.3 million in 2006 and 2008, respectively, which reduced interest expense and increased the carrying value of its unevaluated oil and gas properties.

***New Accounting Standards***

In December 2007, the FASB concurrently issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" ("SFAS 141R") and Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements — An Amendment of ARB No. 51" ("SFAS 160"). Both of these standards require measurements based on fair value as determined under the provisions of SFAS 157 and are effective for financial statements issued for fiscal years beginning after December 15, 2008. In addition, both of these standards also include expanded disclosure requirements.

SFAS 141R establishes accounting and reporting standards for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R will impact the accounting and disclosures for any business combinations the Company engages in after January 1, 2008. However, the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate after that date.

SFAS 160 amends Accounting Research Bulletin 51 to establish accounting and reporting standards for the noncontrolling or minority interest in a subsidiary and for the deconsolidation of a subsidiary. The Company currently does not expect adoption of this standard to have a significant impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities — An Amendment of FASB Statement No. 133" ("SFAS 161"). This standard applies to derivative instruments, nonderivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133. SFAS 161 does not change the accounting for derivatives and hedging activities, but requires enhanced disclosures concerning the effect on the financial statements from their use. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company currently does not expect adoption of this standard to have a material impact on its financial statements.

In September 2008, the FASB issued FASB Staff Position ("FSP") EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." Under the provisions of this standard, unvested awards of share-based payments with rights to receive dividends or

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

dividend equivalents are considered “participating securities” for purposes of calculating earnings per share. As a result, these participating securities will be included in the weighted average number of shares outstanding used to determine basic earnings per share. This FSP is effective for fiscal years beginning after December 15, 2008. All prior period earnings per share data presented in financial reports after the effective date shall be adjusted retrospectively to conform with the provisions of this FSP. The Company does not anticipate that adoption of the FSP will have a significant impact on its previously reported basic earnings per share amounts.

On October 10, 2008, the FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,” which clarifies how companies should apply the fair value measurement methodologies of SFAS 157 to financial assets when markets they trade in are illiquid or inactive. Under the provisions of this FSP, companies may use their own assumptions about future cash flows and appropriately risk-adjusted discount rates when relevant observable inputs are either not available or are based solely on transaction prices that reflect forced liquidations or distressed sales. This FSP was effective as of September 30, 2008. There was no impact to the Company’s financial position or results of operations from the adoption of this FSP.

**Comprehensive Income**

Comprehensive income consists of the following:

	For the Year Ended December 31,		
	2006	2007 (In thousands)	2008
Income from continuing operations	\$ 54,065	\$ 45,644	\$ 58,217
Other comprehensive income:			
Unrealized hedging gains, net of income taxes of \$4,891 in 2008	—	—	9,083
Total from continuing operations	54,065	45,644	67,300
Income from discontinued operations, net of income taxes and minority interest	16,600	23,257	193,745
Total comprehensive income	<u>\$ 70,665</u>	<u>\$ 68,901</u>	<u>\$ 261,045</u>

The following table provides a summary of the amounts included in accumulated other comprehensive income (loss), net of income taxes, which are solely attributable to the Company’s natural gas price swap financial instruments, for the year ended December 31, 2008:

	Accumulated Other Comprehensive Income (Loss) (In thousands)
Balance as of December 31, 2007	\$ —
2008 changes in value	12,210
Reclassification to earnings	(3,127)
Balance as of December 31, 2008	<u>\$ 9,083</u>

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

**(2) Acquisitions and Dispositions of Oil and Gas Properties**

In June 2007, the Company acquired oil and gas properties in South Texas for \$31.2 million in cash. The Company acquired proved oil and gas reserves of 9.1 billion cubic feet (“Bcf”) of natural gas. The transaction was funded with borrowings under Comstock’s bank credit facility. The pro forma impact of this acquisition was not material to the Company’s historical results of operations.

In December 2007, the Company acquired certain oil and gas properties in South Texas for \$160.1 million in cash. The Company acquired proved oil and gas reserves of 70.1 Bcf. The transaction was funded with borrowings under the Company’s bank credit facility and the pro forma effect of the transaction was not material to the Company’s historical results of operations. Concurrent with this acquisition, Comstock entered into a transaction structured as a reverse like-kind exchange in accordance with Section 1031 of the Internal Revenue Code pursuant to which Comstock assigned the right to acquire ownership in the acquired oil and gas properties to an exchange accommodation titleholder. Comstock operated these properties pursuant to lease and management agreements. Because the Company was the primary beneficiary of these arrangements, the properties acquired were included in its consolidated balance sheet as of December 31, 2007, and all revenues earned and expenses incurred related to the properties were included in the Company’s consolidated results of operations during the term of the agreements.

In June and September 2008, the Company sold its interests in certain producing properties in East and South Texas and received aggregate net proceeds of \$129.6 million. Comstock recognized a gain of \$26.6 million on these sales for financial reporting purposes. The sales of these properties completed the reverse like-kind exchange for federal income tax purposes. Accordingly, the ownership of the oil and gas properties acquired in December 2007 was transferred to the Company and the agreements with the exchange accommodation titleholder terminated.

**(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 by the Company for its oil and gas property acquisition, development and exploration activities:

*Capitalized Costs*

	As of December 31,	
	2007	2008
	(In thousands)	
Unproved properties	\$ 5,804	\$ 116,489
Proved properties:		
Leasehold costs	943,333	845,097
Wells and related equipment and facilities	869,304	1,115,447
Accumulated depreciation depletion and amortization	(511,549)	(636,530)
	\$ 1,306,892	\$ 1,440,503

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

**Costs Incurred**

	2006	2007 (In thousands)	2008
Property acquisitions —			
Unproved properties	\$ 5,092	\$ 3,875	\$ 113,023
Proved properties	63,589	192,064	—
Development costs	217,910	313,938	249,527
Exploration costs	8,918	14,482	62,031
	<u>\$ 295,509</u>	<u>\$ 524,359</u>	<u>\$ 424,581</u>

**(4) Long-term Debt**

Long-term debt is comprised of the following:

	As of December 31,	
	2007	2008
	(In thousands)	
Bank credit facility	\$ 505,000	\$ 35,000
6 <sup>7</sup> / <sub>8</sub> % senior notes due 2012	175,000	175,000
	<u>\$ 680,000</u>	<u>\$ 210,000</u>

The following table summarizes Comstock's debt as of December 31, 2008 by year of maturity:

	2009	2010	2011	2012	2013	Total
	(In thousands)					
Bank credit facility	\$ —	\$ —	\$ 35,000	\$ —	\$ —	\$ 35,000
6 <sup>7</sup> / <sub>8</sub> % senior notes	—	—	—	175,000	—	175,000
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 35,000</u>	<u>\$ 175,000</u>	<u>\$ —</u>	<u>\$ 210,000</u>

Comstock has a \$850.0 million bank credit facility with Bank of Montreal, as the administrative agent. The credit facility is a five year revolving credit commitment that matures on December 15, 2011. Indebtedness under the credit facility is secured by substantially all of Comstock's assets and is guaranteed by all of its subsidiaries. The credit facility is subject to borrowing base availability, which is redetermined semiannually based on the banks' estimates of the Company's future net cash flows of oil and natural gas properties. The borrowing base may be affected by the performance of Comstock's properties and changes in oil and natural gas prices. The determination of the borrowing base is at the sole discretion of the administrative agent and the bank group. As of December 31, 2008, the borrowing base was \$590.0 million, \$555.0 million of which was available. Borrowings under the credit facility bear interest, based on the utilization of the borrowing base, at Comstock's option at either (1) LIBOR plus 1.0% to 1.75% or (2) the base rate (which is the higher of the prime rate or the federal funds rate) plus 0% to 0.25%. A commitment fee of 0.25% to 0.375%, based on the utilization of the borrowing base, is payable on the unused borrowing base. The credit facility contains covenants that, among other things, restrict the payment of cash dividends in excess of \$40.0 million, limit the amount of consolidated debt that Comstock may incur and limit the Company's ability to make certain loans and investments. The only financial covenants are the maintenance of a ratio of current assets, including availability under the bank credit facility, to current liabilities of at least

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

one-to-one and maintenance of a minimum tangible net worth. The Company was in compliance with these covenants as of December 31, 2008.

Comstock has \$175.0 million of senior notes outstanding which mature on March 1, 2012. The senior notes bear interest at 6<sup>7</sup>/<sub>8</sub>% which is payable semiannually on each March 1 and September 1. The notes are unsecured obligations of Comstock and are guaranteed by all of Comstock's subsidiaries. The subsidiary guarantors are 100% owned and all of the guarantees are full and conditional and joint and several. As of December 31, 2008, Comstock also has no assets on operations which are independent of its subsidiaries. There are no restrictions on the ability of Comstock to obtain funds from its subsidiaries through dividends or loans.

**(5) Commitments and Contingencies**

**Commitments**

The Company rents office space and other facilities under noncancelable leases. Rent expense for the years ended December 31, 2006, 2007 and 2008 was \$0.7 million, \$0.8 million and \$1.0 million, respectively. Minimum future payments under the leases are as follows:

	(In thousands)
2009	\$ 1,646
2010	1,656
2011	1,656
2012	1,656
2013	1,656
Thereafter	3,174
	<u>\$11,444</u>

As of December 31, 2008, the Company had commitments for contracted drilling rigs of \$136.1 million through October 2012 and minimum commitments under natural gas transportation agreements which expire in August 2013 and May 2019 of \$25.8 million.

**Contingencies**

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

**(6) Stockholders' Equity**

The authorized capital stock of Comstock consists of 50 million shares of common stock, \$.50 par value per share (the "Common Stock"), and 5 million shares of preferred stock, \$10.00 par value per share. The preferred stock may be issued in one or more series, and the terms and rights of such stock will be determined by the Board of Directors. There were no shares of preferred stock outstanding at December 31, 2007 and 2008.

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

Comstock's Board of Directors has designated 500,000 shares of the preferred stock as Series B Junior Participating Preferred Stock (the "Series B Junior Preferred Stock") in connection with the adoption of a shareholder rights plan. At December 31, 2007 and 2008, there were no shares of Series B Junior Preferred Stock issued or outstanding. The Series B Junior Preferred Stock is entitled to receive cumulative quarterly dividends per share equal to the greater of \$1.00 or 100 times the aggregate per share amount of all dividends (other than stock dividends) declared on Common Stock since the immediately preceding quarterly dividend payment date or, with respect to the first payment date, since the first issuance of Series B Junior Preferred Stock. Holders of the Series B Junior Preferred Stock are entitled to 100 votes per share (subject to adjustment to prevent dilution) on all matters submitted to a vote of the stockholders. The Series B Junior Preferred Stock is neither redeemable nor convertible. The Series B Junior Preferred Stock ranks senior to the Common Stock but junior to all other classes of preferred stock.

**(7) Incentive Plans**

The Company maintains an incentive compensation plan under which it grants Common Stock and stock options to key employees and directors. On June 23, 1999, the stockholders approved the 1999 Long-term Incentive Plan for management including officers, directors and managerial employees which replaced the 1991 Long-term Incentive Plan. The 1999 Long-term Incentive Plan together with the 1991 Long-term Incentive Plan authorize the grant of stock options and restricted stock to employees and the directors of the Company. The options under the incentive plans have contractual lives of up to ten years and become exercisable after lapses in vesting periods ranging from six months to ten years from the grant date. As of December 31, 2008, the incentive plans provide for future awards of stock options or restricted stock grants of up to 393,587 shares of Common Stock plus 1% of the outstanding shares of Common Stock each year beginning on January 1, 2009.

During 2006, 2007 and 2008, the Company recorded \$6.9 million, \$10.8 million and \$12.3 million, respectively, in stock-based compensation expense in general and administrative expenses. The excess income tax benefit realized from tax deductions associated with stock-based compensation totaled \$6.2 million, \$6.5 million and \$8.8 million for the years ended December 31, 2006, 2007 and 2008, respectively.

***Stock Options***

The Company amortizes the fair value of stock options granted over the vesting period using the straight-line method. The fair value of each award is estimated as of the date of grant using the Black-Scholes options pricing model. Total compensation expense recognized for all outstanding stock options for the years ended December 31, 2006, 2007 and 2008 was \$0.9 million, \$1.6 million and \$1.5 million, respectively.

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

The following table summarizes the assumptions used to value stock options for the years ended December 31, 2006, 2007 and 2008:

	2006	2007	2008
Weighted average grant date fair value	\$17.37	\$10.32	\$19.76
Weighted average assumptions used:			
Expected volatility	35.4%	36.0%	38.9%
Expected lives	8.9 yrs.	3.9 yrs.	4.3 yrs.
Risk-free interest rates	4.9%	4.9%	3.3%
Expected dividend yield	—	—	—

The expected volatility for grants is calculated using an analysis of the Common Stock's historical volatility. Risk-free interest rates are determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the options.

The following table summarizes information related to stock options outstanding at December 31, 2008:

Exercise Price	Weighted Average Remaining Life (in years)	Number of Options Outstanding	Number of Options Exercisable
\$6.42	1.5	168,750	168,750
\$18.20	1.0	17,000	17,000
\$20.03	2.0	8,720	8,720
\$20.92	1.4	15,000	15,000
\$29.49	3.3	30,000	30,000
\$32.44	3.4	30,000	30,000
\$32.50	6.9	62,750	42,125
\$33.22	8.0	84,650	37,650
\$54.36	4.4	40,000	40,000
	3.9	<u>456,870</u>	<u>389,245</u>

The following tables summarize information related to stock option activity under the incentive plans for the years ended December 31, 2006, 2007 and 2008:

	2006		2007		2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at January 1	1,733,970	\$9.83	1,468,970	\$11.59	914,970	\$16.68
Granted	144,000	\$33.00	40,000	\$29.49	40,000	\$54.36
Exercised	(394,000)	\$10.87	(588,500)	\$4.70	(492,350)	\$13.17
Forfeited	(15,000)	\$32.50	(5,500)	\$33.02	(5,750)	\$33.06
Outstanding at December 31	<u>1,468,970</u>	<u>\$11.59</u>	<u>914,970</u>	<u>\$16.68</u>	<u>456,870</u>	<u>\$23.56</u>
Vested and Exercisable at December 31	<u>1,260,095</u>	<u>\$8.07</u>	<u>797,470</u>	<u>\$14.28</u>	<u>389,245</u>	<u>\$21.92</u>

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

	2006	2007 (In thousands)	2008
Cash received for options exercised	\$ 4,283	\$ 2,765	\$ 6,483
Actual tax benefit realized	\$ 7,780	\$ 17,307	\$ 26,169

As of December 31, 2008, total unrecognized compensation cost related to unvested stock options of \$1.2 million was expected to be recognized over a period of two years. The aggregate intrinsic value of options outstanding at December 31, 2008 was \$11.1 million based on the closing price for Comstock's common stock on December 31, 2008. The aggregate intrinsic value of vested options was \$10.1 million on December 31, 2008. Options granted in 2006, 2007 and 2008 were granted with exercise prices equal to the closing prices of the Company's common stock on the respective grant dates. The total intrinsic value of options exercised was \$7.8 million, \$17.1 million and \$24.4 million for the years ended December 31, 2006, 2007 and 2008, respectively.

**Restricted Stock**

The fair value of restricted stock grants is amortized over the vesting period using the straight-line method. Total compensation expense recognized for restricted stock grants was \$6.0 million, \$9.2 million and \$10.8 million for the years ended December 31, 2006, 2007 and 2008, respectively. The fair value of each restricted share on the date of grant is equal to its fair market price. A summary of restricted stock activity for the years ended December 31, 2006, 2007 and 2008 is presented below:

	Number of Restricted Shares	Weighted Average Grant Price
Outstanding at January 1, 2006	1,093,250	\$22.67
Granted	387,000	\$32.85
Vested	(230,000)	\$16.27
Forfeitures	(43,500)	\$24.62
Outstanding at December 31, 2006	1,206,750	\$27.08
Granted	436,500	\$34.10
Vested	(183,750)	\$19.50
Outstanding at December 31, 2007	1,459,500	\$30.14
Granted	426,750	\$44.31
Vested	(191,000)	\$20.36
Forfeitures	(3,500)	\$34.30
Outstanding at December 31, 2008	1,691,750	\$34.81

Total unrecognized compensation cost related to unvested restricted stock of \$38.3 million as of December 31, 2008 is expected to be recognized over a period of four years. The fair value of restricted stock which vested in 2006, 2007 and 2008 was \$7.0 million, \$5.7 million and \$6.9 million, respectively.



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

**Other Stock Purchase Warrants**

The following table summarizes the other stock purchase warrants that were outstanding at December 31, 2008:

Exercise Price	Weighted Average Remaining Life (in years)	Number of Options Outstanding	Number of Options Exercisable
\$13.59	0.5	30,000	30,000
\$19.46	0.5	50,600	50,600
	0.5	<u>80,600</u>	<u>80,600</u>

The following table summarizes other stock purchase warrant activity during 2006, 2007 and 2008:

	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2006	875,833	\$17.08
Exercised	(688,733)	\$16.94
Outstanding at December 31, 2007	187,100	\$17.59
Exercised	(7,600)	\$13.59
Outstanding at December 31, 2008	179,500	\$17.76
Exercised	(98,900)	\$18.15
Outstanding and exercisable at December 31, 2008	<u>80,600</u>	<u>\$17.28</u>

Warrants were exercised to purchase 688,733, 7,600 and 98,900 shares in 2006, 2007 and 2008, respectively. Such exercises yielded net proceeds of \$11.7 million, \$0.1 million and \$1.8 million in 2006, 2007 and 2008, respectively.

**(8) Retirement Plans**

The Company has a 401(k) profit sharing plan which covers all of its employees. At its discretion, Comstock may match a certain percentage of the employees' contributions to the plan. Matching contributions to the plan were \$199,000, \$255,000 and \$302,000 for the years ended December 31, 2006, 2007 and 2008, respectively.

**(9) Income Taxes**

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

	2006	2007 (In thousands)	2008
Current	\$ 2,834	\$ 3,680	\$ (5,009)
Deferred	31,356	25,543	43,620
	<u>\$ 34,190</u>	<u>\$ 29,223</u>	<u>\$ 38,611</u>

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

Deferred income taxes are provided to reflect the future tax consequences or benefits of differences between the tax basis of assets and liabilities and their reported amounts in the financial statements using enacted tax rates. The difference between the Company's customary rate of 35% and the effective tax rate on income from continuing operations is due to the following:

	2006	2007 (In thousands)	2008
Tax at statutory rate	\$ 30,889	\$ 26,203	\$ 33,890
Tax effect of:			
Nondeductible compensation	2,205	1,885	3,536
State taxes, net of federal tax benefit	(107)	862	1,639
Deferred state taxes provided due to tax law changes	1,288	597	—
Other	(85)	(324)	(454)
Total	<u>\$ 34,190</u>	<u>\$ 29,223</u>	<u>\$ 38,611</u>

  

	2006	2007	2008
Statutory rate	35.0%	35.0%	35.0%
Tax effect of:			
Nondeductible compensation	2.5	2.5	3.7
State taxes, net of federal tax benefit	(0.1)	1.1	1.7
Deferred state taxes provided due to tax law changes	1.4	0.8	—
Other	(0.1)	(0.4)	(0.5)
Effective tax rate	<u>38.7%</u>	<u>39.0%</u>	<u>39.9%</u>

The tax effects of significant temporary differences representing the net deferred tax asset and liability at December 31, 2007 and 2008 were as follows:

	2007 (In thousands)	2008
Current deferred tax assets (liabilities):		
Marketable securities	\$ —	\$ 9,886
Derivatives	—	(4,891)
Net current deferred tax asset	—	4,995
Noncurrent deferred tax assets (liabilities):		
Property and equipment	(106,232)	(193,398)
Other assets	2,632	4,116
Net operating loss carryforwards	14,466	14,079
Valuation allowance on net operating loss carryforwards	(8,043)	(8,043)
Other	5,089	(2,624)
Net noncurrent deferred tax liability	<u>(92,088)</u>	<u>(185,870)</u>
Net deferred tax liability	<u>\$ (92,088)</u>	<u>\$ (180,875)</u>

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

At December 31, 2008, Comstock had the following carryforwards available to reduce future income taxes:

<u>Types of Carryforward</u>	<u>Years of Expiration Carryforward</u>	<u>Amounts (In thousands)</u>
Net operating loss — U.S. federal	2017 — 2021	\$40,226
Alternative minimum tax credits	Unlimited	\$1,243

The utilization of the net operating loss carryforward is limited to approximately \$1.1 million per year pursuant to a prior change of control of an acquired company. Accordingly, a valuation allowance of \$23.0 million, with a tax effect of \$8.0 million, has been established for the estimated net operating loss carryforwards that will not be utilized. Realization of the net operating carryforwards requires Comstock to generate taxable income within the carryforward period. The deferred tax asset related to the decline in the value of the Stone shares is expected to be realized from future sales of these shares.

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions. The Company has analyzed its filing positions in all jurisdictions where it is required to file income tax returns for the open tax years in such jurisdictions. The Company has identified its federal income tax return and its state income tax returns in Texas, Louisiana, Mississippi and Oklahoma in which it operates as "major" tax jurisdictions. The Company's federal income tax returns for the years subsequent to December 31, 2005 remain subject to examination. The Company's federal income tax return for the year ended December 31, 2006 is currently under examination by the Internal Revenue Service. The Company's income tax returns in major state income tax jurisdictions remain subject to examination for various periods subsequent to December 31, 2004. The Company currently believes that all significant filing positions are highly certain and that all of its significant income tax filing positions and deductions would be sustained upon audit. Therefore, the Company has no significant reserves for uncertain tax positions and no adjustments to such reserves were required upon adoption of FIN 48. Interest and penalties resulting from audits by tax authorities have been immaterial and are included in the provision for income taxes in the consolidated statements of operations.

**(10) Derivatives and Hedging Activities**

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

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

The accompanying consolidated financial statements include a net gain on derivative financial instruments related to natural gas prices of \$10.7 million in 2006 which was comprised of an \$11.2 million unrealized gain and \$0.5 million in realized losses to settle derivative positions which expired during the year.

In January 2008, Comstock entered into natural gas swaps to fix the price at \$8.00 per Mmbtu (at the Houston Ship Channel) for 520,000 Mmbtu's per month of production from certain properties in South Texas for the period February 2008 through December 2009. The Company designated these swaps at their inception as cash flow hedges. Realized gains and losses are included in oil and natural gas sales in the month of production. Changes in the fair value of derivative instruments designated as cash flow hedges to the extent they are effective in offsetting cash flows attributable to the hedged risk are recorded in other comprehensive income until the hedged item is recognized in earnings. Any change in fair value resulting from ineffectiveness is recognized currently in oil and natural gas sales as unrealized gains (losses). The Company realized losses of \$4.8 million on the natural gas price swaps settled during 2008, which are included in oil and gas sales in the accompanying consolidated statements of operations. As of December 31, 2008, the estimated fair value of the Company's derivative financial instruments, which equals their carrying value, was a net asset of \$14.0 million, which is classified as a current asset.

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

	2007				Total
	First	Second	Third	Fourth	
	(In thousands, except per share amounts)				
Total oil and gas sales	\$ 69,847	\$ 83,160	\$ 83,087	\$ 95,519	\$ 331,613
Income from operations	\$ 21,784	\$ 27,822	\$ 25,124	\$ 31,409	\$ 106,139
Income from continuing operations	\$ 9,399	\$ 12,971	\$ 10,108	\$ 13,166	\$ 45,644
Income from discontinued operations	\$ 3,159	\$ 5,246	\$ 6,320	\$ 8,532	\$ 23,257
Net income	\$ 12,558	\$ 18,217	\$ 16,428	\$ 21,698	\$ 68,901
Basic net income per share:					
Continuing operations	\$ 0.22	\$ 0.30	\$ 0.23	\$ 0.30	\$ 1.05
Discontinued operations	0.07	0.12	0.15	0.20	0.54
Total	\$ 0.29	\$ 0.42	\$ 0.38	\$ 0.50	\$ 1.59
Diluted net income per share:					
Continuing operations	\$ 0.21	\$ 0.29	\$ 0.23	\$ 0.30	\$ 1.03
Discontinued operations	0.07	0.12	0.14	0.18	0.51
Total	\$ 0.28	\$ 0.41	\$ 0.37	\$ 0.48	\$ 1.54

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

	2008				
	First	Second	Third	Fourth	Total
	(In thousands, except per share amounts)				
Total oil and gas sales	\$ 127,721	\$ 172,022	\$ 163,852	\$ 100,154	\$ 563,749
Income from operations	\$ 56,372	\$ 118,760	\$ 91,673	\$ 16,375	\$ 283,180
Income (loss) from continuing operations	\$ 29,402	\$ 70,428	\$ 54,764	\$ (96,377)	\$ 58,217
Income from discontinued operations	\$ 11,693	\$ 12,199	\$ 169,853	\$ —	\$ 193,745
Net income (loss)	\$ 41,095	\$ 82,627	\$ 224,617	\$ (96,377)	\$ 251,962
Basic net income per share:					
Continuing operations	\$ 0.67	\$ 1.59	\$ 1.22	\$ (2.15)	\$ 1.31
Discontinued operations	0.26	0.28	3.80	—	4.35
Total	\$ 0.93	\$ 1.87	\$ 5.02	\$ (2.15)	\$ 5.66
Diluted net income per share:					
Continuing operations	\$ 0.66	\$ 1.55	\$ 1.20	\$ (2.15)	\$ 1.28
Discontinued operations	0.25	0.26	3.71	—	4.25
Total	\$ 0.91	\$ 1.81	\$ 4.91	\$ (2.15)	\$ 5.53

The Company recognized a gain on the disposal of its discontinued offshore operations in the three months ended September 30, 2008 of approximately \$158.1 million, after income taxes of \$85.3 million. The Company recognized an unrealized loss before income taxes of \$162.7 million in the three months ended December 31, 2008 to write down its marketable securities. Basic and diluted per share amounts for the three months ended December 31, 2008 are the same due to the net loss during this period.

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

Set forth below is a summary of the changes in Comstock's net quantities of crude oil and natural gas reserves for each of the three years ended December 31, 2008:

	2006		2007		2008	
	Oil (MBbls)	Gas (MMcf)	Oil (MBbls)	Gas (MMcf)	Oil (MBbls)	Gas (MMcf)
<b>Proved Reserves:</b>						
Beginning of year	12,043	432,416	11,984	435,508	10,510	587,718
Revisions of previous estimates	208	(60,879)	(1,449)	14,145	551	(56,153)
Extensions and discoveries	654	77,741	891	98,665	528	99,232
Purchases of minerals in place	—	16,501	92	78,631	—	—
Sales of minerals in place	—	—	—	—	(912)	(53,287)
Production	(921)	(30,271)	(1,008)	(39,231)	(1,009)	(53,867)
End of year	11,984	435,508	10,510	587,718	9,668	523,643
<b>Proved Developed Reserves:</b>						
Beginning of year	7,229	255,127	7,912	241,243	7,449	370,339
End of year	7,912	241,243	7,449	370,339	5,446	354,934

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

The following table sets forth the standardized measure of discounted future net cash flows relating to proved reserves at December 31, 2007 and 2008:

	2007	2008
	(In thousands)	
<b>Cash Flows Relating to Proved Reserves:</b>		
Future Cash Flows	\$ 4,792,226	\$ 3,126,215
Future Costs:		
Production	(1,351,642)	(1,161,911)
Development and Abandonment	(517,290)	(495,465)
Future Income Taxes	(802,637)	(328,649)
Future Net Cash Flows	2,120,657	1,140,190
10% Discount Factor	(958,109)	(503,899)
<b>Standardized Measure of Discounted Future Net Cash Flows</b>	<b>\$ 1,162,548</b>	<b>\$ 636,291</b>

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, 2006, 2007 and 2008:

	2006	2007	2008
	(In thousands)		
Standardized Measure, Beginning of Year	\$ 1,113,796	\$ 747,494	\$ 1,162,548
Net Change in Sales Price, Net of Production Costs	(592,992)	256,216	(594,456)
Development Costs Incurred During the Year Which Were Previously Estimated	127,818	160,294	165,036
Revisions of Quantity Estimates	(135,699)	15,550	(90,587)
Accretion of Discount	158,505	98,128	157,781
Changes in Future Development and Abandonment Costs	(98,836)	(160,541)	(32,538)
Changes in Timing	(16,794)	(23,205)	83,223
Extensions, Discoveries and Improved Recovery	121,217	296,534	157,529
Purchases of Reserves in Place	36,326	220,372	—
Sales of Reserves in Place	—	—	(126,666)
Sales, Net of Production Costs	(203,315)	(266,822)	(477,019)
Net Changes in Income Taxes	237,468	(181,472)	231,440
<b>Standardized Measure, End of Year</b>	<b>\$ 747,494</b>	<b>\$ 1,162,548</b>	<b>\$ 636,291</b>

The estimates of proved oil and gas reserves utilized in the preparation of the financial statements were estimated by independent petroleum consultants of Lee Keeling and Associates 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 Comstock's reserves are located onshore in the continental United States of America.

Future cash inflows are calculated by applying year-end prices adjusted for transportation and other charges to the year-end quantities of proved reserves, except in those instances where fixed and determinable price changes are provided by contractual arrangements in existence at year-end.

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

The Company's average year-end prices used in the reserve estimates were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Crude Oil (Per Barrel)	\$ 50.86	\$ 81.36	\$ 34.49
Natural Gas (Per Mcf)	\$ 5.63	\$ 6.70	\$ 5.33

Future development and production costs are computed by estimating the expenditures to be incurred in developing and producing proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. Future income tax expenses are computed by applying the appropriate statutory tax rates to the future pre-tax net cash flows relating to proved reserves, net of the tax basis of the properties involved. The future income tax expenses give effect to permanent differences and tax credits, but do not reflect the impact of future operations.

**Index to Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
2.1	Purchase and Sale Agreement between SWEPI LP and Comstock Oil and Gas, LP dated November 26, 2007 (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K dated November 26, 2007).
3.1(a)	Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to our 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 by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to our Registration Statement on Form S-3, dated October 25, 1996).
4.1	Rights Agreement dated as of December 14, 2000, by and between Comstock and American Stock Transfer and Trust Company, as Rights Agent (incorporated herein by reference to Exhibit 1 to our Registration Statement on Form 8-A dated January 11, 2001).
4.2	Certificate of Designation, Preferences and Rights of Series B Junior Participating Preferred Stock (incorporated by reference to Exhibit 2 to our Registration Statement on Form 8-A dated January 11, 2001).
4.3	Indenture dated February 25, 2004 between Comstock, the guarantors and The Bank of New York Trust Company, N.A., Trustee for debt securities issued by Comstock Resources, Inc. (incorporated by reference to Exhibit 4.6 to our Annual Report on Form 10-K for the year ended December 31, 2003).
4.4	First Supplemental Indenture, dated February 25, 2004 between Comstock, the guarantors and The Bank of New York Trust Company, N.A., Trustee for the 6 <sup>7</sup> / <sub>8</sub> % Senior Notes due 2012 (incorporated by reference to Exhibit 4.7 to our Annual Report on Form 10-K for the year ended December 31, 2003).
4.5	Second Supplemental Indenture, dated March 11, 2004 between Comstock, the guarantors and The Bank of New York Trust Company, N.A. for the 6 <sup>7</sup> / <sub>8</sub> % Senior Notes due 2012 (incorporated by reference to Exhibit 4.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
4.6	Third Supplemental Indenture dated July 16, 2004 between Comstock, the guarantors and The Bank of New York Trust Company, N.A., Trustee (incorporated by reference to Exhibit 4.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
4.7	Fourth Supplemental Indenture dated May 20, 2005 between Comstock, the guarantors and The Bank of New York Trust Company, N.A., Trustee (incorporated by reference to Exhibit 4.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.1#	Employment Agreement dated December 22, 2008 by and between Comstock and M. Jay Allison (incorporated by reference to Exhibit 99.1 to our Current Report on Form 8-K dated December 22, 2008).
10.2#	Employment Agreement dated December 22, 2008 by and between Comstock and Roland O. Burns (incorporated by reference to Exhibit 99.2 to our Current Report on Form 8-K dated December 22, 2008).
10.3#	Comstock Resources, Inc. 1999 Long-term Incentive Plan (As restated on April 1, 2001) (incorporated by reference to Exhibit 10.8 to our Annual Report on Form 10-K for the year ended December 31, 2004).
10.4#	Amendment No. 2 dated April 7, 2004 to the Comstock Resources, Inc. 1999 Long-term Incentive Plan (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
10.5#	Form of Nonqualified Stock Option Agreement between Comstock and certain officers and directors of Comstock (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the year ended June 30, 1999).

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<u>Exhibit No.</u>	<u>Description</u>
10.6#	Form of Restricted Stock Agreement between Comstock and certain officers of Comstock (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
10.7	Warrant Agreement dated July 31, 2001 by and between Comstock and Gary W. Blackie and Wayne L. Laufer (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
10.8	Lease between Stonebriar I Office Partners, Ltd. and Comstock Resources, Inc. dated May 6, 2004 (incorporated by reference to Exhibit 10.24 to our Annual Report on Form 10-K for the year ended December 31, 2004).
10.9	First Amendment to the Lease Agreement dated August 25, 2005, between Stonebriar I Office Partners, Ltd. and Comstock Resources, Inc. (incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K for the year ended December 31, 2005).
10.10*	Second Amendment to the Lease Agreement dated October 15, 2007 between Stonebriar I Office Partners, Ltd. and Comstock Resources, Inc.
10.11*	Third Amendment to the Lease Agreement dated September 30, 2008 between Stonebriar I Office Partners, Ltd. and Comstock Resources, Inc.
10.12	Second Amended and Restated Credit Agreement, dated December 15, 2006, among Comstock, as the borrower, the lenders from time to time thereto, Bank of Montreal, as administrative agent and issuing bank, Bank of America, N.A., as syndication agent and Comerica Bank, Fortis Capital Corp., and Union Bank of California, N.A. as co-documentation agents (incorporated by reference to Exhibit 10.1 to our Annual Report on Form 10-K for the year ended December 31, 2006).
10.13	First Amendment to Second Amended and Restated Credit Agreement dated April 30, 2008, among Comstock as the borrower, the lenders, from time to time thereto, Bank of Montreal, as administrative agent and issuing bank, Bank of America, N.A., co-syndication agent and Comerica Bank, Fortis Capital Corp., and Union Bank of California, N.A. as co-documentation agents (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).
10.14	Stockholder Agreement between Stone Energy Corporation and Comstock Resources, Inc. dated April 30, 2008 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated April 30, 2008).
21*	Subsidiaries of the Company.
23.1*	Consent of Ernst & Young LLP.
23.2*	Consent of Independent Petroleum Engineers.
31.1*	Chief Executive Officer certification under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Chief Financial Officer certification under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Chief Executive Officer certification under Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Chief Financial Officer certification under Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith.

+ Furnished herewith.

# Management contract or compensatory plan document.

**SECOND AMENDMENT OF LEASE AGREEMENT**

SECOND AMENDMENT OF LEASE AGREEMENT (the "**Second Amendment**") is made and entered into by and between STONEBRIAR I OFFICE PARTNERS, LTD. ("**Lessor**"), and COMSTOCK RESOURCES, INC. ("**Lessee**").

**RECITALS:**

WHEREAS, Lessor and Lessee entered into a certain Lease Agreement dated May 6, 2004, (the "**Lease**"), with the defined terms and conditions of the Lease being hereby incorporated herein by reference; and

WHEREAS, Lessor and Lessee entered into First Amendment of Lease Agreement dated August 31, 2005; and

WHEREAS, Lessee desires to exercise the option therein granted it to expand the Premises by incorporating additional space; and

WHEREAS, Exhibit G of the Lease provides for the manner in which the Lease shall be amended in such circumstances.

NOW, THEREFORE, for and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration paid by each party to the other, the receipt and sufficiency of which is hereby acknowledged, the Lessor and the Lessee hereby amend and modify the Lease, and agree as follows:

1. **Expansion of the Premises.** Lessee and Lessor acknowledge that the Premises shall include Suite 320 of the Building, comprising 10,486 additional square feet. Lessor and Lessee further acknowledge that the expiration date of the initial term of the Lease shall continue to be 5:00 p.m., July 31, 2014.
  2. **New Rental for the Expanded Premises.** Lessor and Lessee agree that the amended monthly Basic Rental payable by Lessee to the Lessor for the Premises shall be the sum of \$81,341.25 (\$22.50 per square foot) per month, commencing on December 1, 2007 or upon substantial completion of tenant improvements.
  3. **Proportionate Shares.** Lessee's Proportionate Share is amended to be 39.75%.
  4. **Refinishing.** Lessor will provide Lessee with a construction allowance of \$9.34 per rentable square foot on the Expanded Premises which includes the cost of new paint and carpet of equal quality to the paint and carpet in Lessee's existing space.  
  
Lessor will oversee the construction, act as liaison between Tenant, the contractor, and the designer and coordinate the relationship between the construction, the Building, and the Building systems.
  5. **Garage Parking.** In addition to the free 19 assigned spaces that Lessee already has in the parking garage, Lessor shall provide Lessee with 3 additional assigned parking spaces (#2, #3, #46), and 1 conditional parking space (#33 1/2), all at no charge. The conditional parking space is a space next to a handicapped parking space. Should a handicapped person ever rent the handicapped parking space #34 and require the parking space next to it to be empty (as is required in the case of van accessibility), the conditional parking space will need to be given up and no replacement parking space will be given.
  6. **Ratification of Lease.** Except as expressly amended and modified herein, Lessor and Lessee hereby ratify and confirm the Lease in all respects, and Lessee and Lessor each acknowledge that the other party to the Lease has fully performed its obligations to the date hereof, or else waives all claims against the other for any nonperformance of such obligations.
  7. **Execution of Amendment.** This Amendment may be executed in multiple counterparts, which, when taken together, shall constitute a single integrated instrument. Further, for purposes of this Amendment, facsimile signatures by either party shall be deemed original signatures for all purposes.
  8. **Binding Effect.** This Amendment shall be binding on the parties hereto, and their respective successors and assigns, for all purposes.
-

Executed by the Lessor and the Lessee effective as of this 15<sup>th</sup> day of October, 2007.

**LESSOR:**

STONEBRIAR I OFFICE PARTNERS, LTD.,

By: Stonebriar I Partners, LLC, its  
General Partner

By: /s/ RODERICK V. O'CONNOR  
Its: President

**LESSEE:**

COMSTOCK RESOURCES, INC.  
A Nevada corporation

By: /s/ ROLAND O. BURNS  
Its: Senior Vice President and  
Chief Financial Officer

**THIRD AMENDMENT OF LEASE AGREEMENT**

THIRD AMENDMENT OF LEASE AGREEMENT (the "**Third Amendment**") is made and entered into by and between STONEBRIAR I OFFICE PARTNERS, LTD. ("**Lessor**"), and COMSTOCK RESOURCES, INC. ("**Lessee**").

**RECITALS:**

WHEREAS, Lessor and Lessee entered into a certain Lease Agreement dated May 6, 2004, (the "**Lease**"), with the defined terms and conditions of the Lease being hereby incorporated herein by reference; and

WHEREAS, Lessor and Lessee entered into First Amendment of Lease Agreement dated August 31, 2005; and

WHEREAS, Lessor and Lessee entered into Second Amendment of Lease Agreement dated October 15, 2007; and

WHEREAS, Lessee desires to exercise the option therein granted it to expand the Premises by incorporating additional space; and

WHEREAS, Exhibit G of the Lease provides for the manner in which the Lease shall be amended in such circumstances.

NOW, THEREFORE, for and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration paid by each party to the other, the receipt and sufficiency of which is hereby acknowledged, the Lessor and the Lessee hereby amend and modify the Lease, and agree as follows:

1. **2008 Expansion of the Premises.** Lessee and Lessor acknowledge that the Premises shall, effective October 1, 2008, include Suite 460 of the building, comprising 2,417 additional square feet. Lessor and Lessee further acknowledge that the expiration date of the initial term of the Lease shall continue to be 5:00 p.m., July 31, 2014.
  2. **2009 Expansion of the Premises.** Lessee and Lessor further acknowledge that the Premises shall, effective February 1, 2009, also include suite 420 of the Building, comprising 5,577 additional square feet. Lessor and Lessee further acknowledge that the expiration date of the initial term of the Lease, as amended by the inclusion of such addition, shall continue to be 5:00 p.m., July 31, 2014.
  3. **New Rental for the 2008 Expanded Premises.** Lessor and Lessee agree that the amended monthly Basic Rental payable by Lessee to the Lessor for the 2008 Premises, as hereby amended, shall be increased by the sum of \$4,531.88 per month (\$22.50 per square foot), commencing on October 1, 2007, to a new total of 85,873.13.
  4. **New Rental for the 2009 Expanded Premises.** Lessor and Lessee agree that the amended monthly Basic Rental payable by Lessee to the Lessor for the 2009 Expanded Premises, as hereby amended, shall be increased by the sum of \$10,456.88 per month (\$22.50 per square foot), commencing on February 1, 2009, to a new total of \$96,330.01.
  5. **Proportionate Shares.** Lessee's Proportionate Share is amended to be 42.16% effective October 1, 2008 and amended to be 47.03% effective February 1, 2009.
  6. **Refinishing.** Lessor will recarpet and paint the 2008 and 2009 expansion premises to the same standards as exists in Lessee's existing space. Lessor will oversee the construction, act as liaison between Tenant, the contractor, and the designer and coordinate the relationship between the construction, the Building, and the Building systems.
  7. **Ratification of Lease.** Except as expressly amended and modified herein, Lessor and Lessee hereby ratify and confirm the Lease in all respects, and Lessee and Lessor each acknowledge that the other party to the Lease has fully performed its obligations to the date hereof, or else waives all claims against the other for any nonperformance of such obligations.
  8. **Execution of Amendment.** This Amendment may be executed in multiple counterparts, which, when taken together, shall constitute a single integrated instrument. Further, for purposes of this Amendment, facsimile signatures by either party shall be deemed original signatures for all purposes.
  9. **Binding Effect.** This Amendment shall be binding on the parties hereto, and their respective successors and assigns, for all purposes.
-

Executed by the Lessor and the Lessee effective as of this 30th day of September, 2008.

**LESSOR:**

STONEBRIAR I OFFICE PARTNERS, LTD.,

By: Stonebriar I Partners, LLC, its  
General Partner

By: /s/ THOMAS C. KOPACSI,  
Its: Treasurer

**LESSEE:**

COMSTOCK RESOURCES, INC.  
A Nevada corporation

By: /s/ ROLAND O. BURNS  
Its: Senior Vice President and  
Chief Financial Officer

## SUBSIDIARIES OF COMSTOCK RESOURCES, INC.

Name	Incorporation	Business Name
Comstock Oil & Gas GP, LLC	Nevada	Comstock Oil & Gas GP, LLC
Comstock Oil & Gas Investments, LLC	Nevada	Comstock Oil & Gas Investments, LLC
Comstock Oil & Gas, LP <sup>(1)</sup>	Nevada	Comstock Oil & Gas, LP
Comstock Oil & Gas Holdings, Inc. <sup>(2)</sup>	Nevada	Comstock Oil & Gas Holdings, Inc.
Comstock Oil & Gas — Louisiana, LLC <sup>(3)</sup>	Nevada	Comstock Oil & Gas — Louisiana, LLC
Comstock Offshore, LLC <sup>(4)</sup>	Nevada	Comstock Offshore, LLC

(1) Comstock Oil & Gas GP, LLC is the general partner and Comstock Oil & Gas Investments, LLC is the limited partner of this partnership

(2) 100% owned by Comstock Oil & Gas, LP

(3) Subsidiary of Comstock Oil & Gas Holdings, Inc.

(4) Subsidiary of Comstock Oil & Gas — Louisiana, LLC

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement Nos. 33-20981 and 33-88962 filed on Form S-8 and Nos. 333-111237, 333-112100 and 333-128813 filed on Form S-3 of Comstock Resources, Inc. and the related Prospectuses of our reports dated February 25, 2009 with respect to the consolidated financial statements of Comstock Resources, Inc. and the effectiveness of internal control over financial reporting of Comstock Resources, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2008.

/s/ ERNST & YOUNG LLP

Dallas, Texas  
February 25, 2009

**CONSENT OF INDEPENDENT PETROLEUM ENGINEERS**

We consent to the incorporation by reference in the Registration Statement Nos. 33-20981 and 33-88962 filed on Form S-8 and Nos. 333-111237, 333-112100 and 333-128813 filed on Form S-3 of Comstock Resources, Inc. and the related Prospectuses of the reference of our firm and to the reserve estimates as of December 31, 2008 and our report thereon in the Annual Report on Form 10-K for the year ended December 31, 2008 of Comstock Resources, Inc., filed with the Securities and Exchange Commission.

/s/ LEE KEELING AND ASSOCIATES, INC.  
Tulsa, Oklahoma  
February 23, 2009



## Section 302 Certification

I, M. Jay Allison, certify that:

1. I have reviewed this December 31, 2008 Form 10-K of Comstock Resources, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2009

/s/ M. JAY ALLISON  
President and Chief Executive Officer

## Section 302 Certification

I, Roland O. Burns, certify that:

1. I have reviewed this December 31, 2008 Form 10-K of Comstock Resources, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2009

/s/ ROLAND O. BURNS  
Sr. Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Comstock Resources, Inc. (the "Company") on Form 10-K for the year ending December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Jay Allison, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ M. JAY ALLISON  
M. Jay Allison  
Chief Executive Officer  
February 25, 2009

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Comstock Resources, Inc. (the "Company") on Form 10-K for the year ending December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Roland O. Burns, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ ROLAND O. BURNS  
Roland O. Burns  
Chief Financial Officer  
February 25, 2009