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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

  **T**  

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For The Quarter Ended September 30, 2001**

OR

          

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF  
THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

**Commission File No. 0-16741**

**COMSTOCK RESOURCES, INC.**

(Exact name of registrant as specified in its charter)

**NEVADA**

(State or other jurisdiction of  
incorporation or organization)

**94-1667468**

(I.R.S. Employer  
Identification Number)

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

(Address of principal executive offices)

Telephone No.: **(972) 668-8800**

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

Yes   **T**   No       

The number of shares outstanding of the registrant's common stock, par value \$.50, as of November 14, 2001 was 28,483,715.

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# COMSTOCK RESOURCES, INC.

## QUARTERLY REPORT

For the Quarter Ended September 30, 2001

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## **PART I - FINANCIAL INFORMATION**

### **ITEM 1. FINANCIAL STATEMENTS**

# COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

### ASSETS

	September 30, 2001	December 31, 2000
	(Unaudited)	
	(In thousands)	
Cash and Cash Equivalents . . . . .	\$ 3,088	\$ 7,105
Accounts Receivable:		
Oil and gas sales . . . . .	18,342	34,637
Joint interest operations . . . . .	2,569	4,574
Other Current Assets . . . . .	2,146	2,842
Total current assets . . . . .	26,145	49,158
Property and Equipment:		
Unevaluated oil and gas properties . . . . .	12,356	5,206
Oil and gas properties, successful efforts method . . . . .	730,730	659,505
Other . . . . .	2,618	2,589
Accumulated depreciation, depletion and amortization . . . . .	(265,006)	(232,387)
Net property and equipment . . . . .	480,698	434,913
Other Assets . . . . .	5,056	5,859
	<u>\$ 511,899</u>	<u>\$ 489,930</u>

### LIABILITIES AND STOCKHOLDERS' EQUITY

Current Portion of Long-Term Debt . . . . .	\$ 417	\$ 101
Accounts Payable and Accrued Expenses . . . . .	37,299	45,544
Total current liabilities . . . . .	37,716	45,645
Long-Term Debt, less current portion . . . . .	206,000	234,000
Deferred Taxes Payable . . . . .	39,969	22,555
Reserve for Future Abandonment Costs . . . . .	7,557	7,557
Stockholders' Equity:		
Preferred stock -- \$10.00 par, 5,000,000 shares authorized, 1,757,310 shares outstanding . . . . .	17,573	17,573
Common stock--\$0.50 par, 50,000,000 shares authorized, 28,878,315 and 28,837,755 shares outstanding at September 30, 2001 and December 31, 2000, respectively . . . . .	14,439	14,419
Additional paid-in capital . . . . .	131,878	129,896
Retained earnings . . . . .	57,832	19,329
Deferred compensation-restricted stock grants . . . . .	(876)	(1,044)
Accumulated other comprehensive loss . . . . .	(189)	-
Total stockholders' equity . . . . .	220,657	180,173
	<u>\$ 511,899</u>	<u>\$ 489,930</u>

The accompanying notes are an integral part of these statements.

# COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
(In thousands, except per share data)				
Revenues:				
Oil and gas sales . . . . .	\$ 29,668	\$ 44,883	\$ 143,521	\$ 116,523
Other income . . . . .	113	104	381	241
Total revenues . . . . .	<u>29,781</u>	<u>44,987</u>	<u>143,902</u>	<u>116,764</u>
Expenses:				
Oil and gas operating . . . . .	7,250	7,049	25,064	21,653
Exploration . . . . .	63	1,041	3,371	1,828
Depreciation, depletion and amortization . . . . .	12,381	10,342	36,458	32,508
General and administrative, net . . . . .	623	824	2,450	2,019
Interest . . . . .	5,018	6,007	15,479	18,440
Total expenses . . . . .	<u>25,335</u>	<u>25,263</u>	<u>82,822</u>	<u>76,448</u>
Income before income taxes . . . . .	4,446	19,724	61,080	40,316
Income tax expense . . . . .	(1,556)	(6,903)	(21,378)	(14,111)
Net income . . . . .	<u>2,890</u>	<u>12,821</u>	<u>39,702</u>	<u>26,205</u>
Preferred stock dividends . . . . .	(404)	(686)	(1,199)	(2,051)
Net income attributable to common stock . . . . .	<u>\$ 2,486</u>	<u>\$ 12,135</u>	<u>\$ 38,503</u>	<u>\$ 24,154</u>
Net income per share:				
Basic . . . . .	<u>\$ 0.09</u>	<u>\$ 0.47</u>	<u>\$ 1.32</u>	<u>\$ 0.95</u>
Diluted . . . . .	<u>\$ 0.09</u>	<u>\$ 0.37</u>	<u>\$ 1.14</u>	<u>\$ 0.77</u>
Weighted average shares outstanding:				
Basic . . . . .	<u>28,796</u>	<u>25,687</u>	<u>29,207</u>	<u>25,508</u>
Diluted . . . . .	<u>33,970</u>	<u>34,505</u>	<u>34,851</u>	<u>33,966</u>

The accompanying notes are an integral part of these statements.

# COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Nine Months September 30, 2001

(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Deferred Compensation- Restricted Stock Grants	Accumulated Other Comprehensive Loss	Total
(In thousands)							
Balance at December 31, 2000 . . . .	\$ 17,573	\$ 14,419	\$ 129,896	\$ 19,329	\$ (1,044)	\$ —	\$ 180,173
Restricted stock grants . . . . .	—	—	—	—	168	—	168
Value of stock options issued for exploration prospects . . . . .	—	—	3,028	—	—	—	3,028
Exercise of stock options . . . . .	—	274	1,626	—	—	—	1,900
Repurchases of common stock . .	—	(254)	(2,672)	—	—	—	(2,926)
Net income attributable to common stock . . . . .	—	—	—	38,503	—	—	38,503
Unrealized hedge losses . . . . .	—	—	—	—	—	(189)	(189)
Balance at September 30, 2001 . . .	<u>\$ 17,573</u>	<u>\$ 14,439</u>	<u>\$ 131,878</u>	<u>\$ 57,832</u>	<u>\$ (876)</u>	<u>\$ (189)</u>	<u>\$ 220,657</u>

The accompanying notes are an integral part of these statements.

# COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30,	
	2001	2000
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 39,702	\$ 26,205
Adjustments to reconcile net income to net cash provided by operating activities:		
Compensation paid in common stock	168	168
Exploration	3,371	1,828
Depreciation, depletion and amortization	36,458	32,508
Deferred income taxes	17,414	14,111
Gain on sale of properties	(12)	—
Working capital provided by operations	97,101	74,820
Decrease (increase) in accounts receivable	18,300	(10,135)
Decrease (increase) in other current assets	696	(1,486)
Increase (decrease) in accounts payable and accrued expenses	(8,434)	11,679
Net cash provided by operating activities	<u>107,663</u>	<u>74,878</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of properties	45	13
Capital expenditures and acquisitions	(81,816)	(64,647)
Net cash used for investing activities	<u>(81,771)</u>	<u>(64,634)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings	23,730	14,408
Principal payments on debt	(51,414)	(28,323)
Preferred stock dividends paid	(1,199)	(2,051)
Proceeds from common stock issuance	1,900	711
Repurchases of common stock	(2,926)	—
Net cash used for financing activities	<u>(29,909)</u>	<u>(15,255)</u>
Net decrease in cash and cash equivalents	<u>(4,017)</u>	<u>(5,011)</u>
Cash and cash equivalents, beginning of period	7,105	7,648
Cash and cash equivalents, end of period	<u>\$ 3,088</u>	<u>\$ 2,637</u>

The accompanying notes are an integral part of these statements.

# COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001

(Unaudited)

### (1) SIGNIFICANT ACCOUNTING POLICIES -

#### *Basis of Presentation -*

In management's opinion, the accompanying consolidated financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position of Comstock Resources, Inc. and subsidiaries (the "Company") as of September 30, 2001 and the related results of operations for the three months and nine months ended September 30, 2001 and 2000 and cash flows for the nine months ended September 30, 2001 and 2000.

The accompanying unaudited financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the Company's financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

The results of operations for the nine months ended September 30, 2001 are not necessarily an indication of the results expected for the full year.

#### *Supplementary Information with Respect to the Statements of Cash Flows -*

	For the Nine Months Ended September 30,	
	2001	2000
	(In thousands)	
Cash Payments -		
Interest payments . . . . .	\$ 11,686	\$ 14,242
Income tax payments . . . . .	243	—
Noncash Investing and Financing Activities -		
Value of vested stock options		
under exploration joint venture . . . . .	\$ 3,028	\$ 1,495

#### *Income Taxes-*

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



# COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### Earnings Per Share -

Basic earnings per share is determined without the effect of any outstanding potentially dilutive stock options or other convertible securities and diluted earnings per share is determined with the effect of outstanding stock options and other convertible securities that are potentially dilutive. Basic and diluted earnings per share for the three months and nine months ended September 30, 2001 and 2000 were determined as follows:

	For the Three Months Ended September 30,					
	2001			2000		
	Income	Shares	Per Share	Income	Shares	Per Share
	(Amounts in thousands except per share data)					
<i>Basic Earnings Per Share:</i>						
Income . . . . .	\$ 2,890	28,796		\$ 12,821	25,687	
Less Preferred Stock						
Dividends . . . . .	(404)	—		(686)	—	
Net Income Available to Common Stockholders . . . . .	2,486	28,796	\$ 0.09	12,135	25,687	\$ 0.47
<i>Diluted Earnings Per Share:</i>						
Effect of Dilutive Securities:						
Stock Options . . . . .	—	781		—	1,386	
Convertible Preferred Stock . . . . .	404	4,393		686	7,432	
Net Income Available to Common Stockholders and Assumed Conversions . . . . .	\$ 2,890	33,970	\$ 0.09	\$ 12,821	34,505	\$ 0.37
	For the Nine Months Ended September 30,					
	2001			2000		
	Income	Shares	Per Share	Income	Shares	Per Share
	(Amounts in thousands except for per share data)					
<i>Basic Earnings Per Share:</i>						
Income . . . . .	\$ 39,702	29,207		\$ 26,205	25,508	
Less Preferred Stock						
Dividends . . . . .	(1,199)	—		(2,051)	—	
Net Income Available to Common Stockholders . . . . .	38,503	29,207	\$ 1.32	24,154	25,508	\$ 0.95
<i>Diluted Earnings Per Share:</i>						
Effect of Dilutive Securities:						
Stock Options . . . . .	—	1,251		—	981	
Convertible Preferred Stock . . . . .	1,199	4,393		2,051	7,477	
Net Income Available to Common Stockholders and Assumed Conversions . . . . .	\$ 39,702	34,851	\$ 1.14	\$ 26,205	33,966	\$ 0.77

# COMSTOCK RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### *Derivative Instruments and Hedging Activities -*

In September 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") which has been amended by SFAS 137 and SFAS 138. The Statement establishes accounting and reporting standards that are effective for fiscal years beginning after June 15, 2000 which require that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company adopted SFAS 133 on January 1, 2001, and since the Company had no outstanding derivatives, there was no effect on the Company's financial statements as a result of such adoption.

The Company periodically uses derivatives to hedge floating interest rates and oil and gas price risks. Such derivatives are reported at cost, if any, and gains and losses on such derivatives are reported when the hedged transaction occurs. As of September 30, 2001 the Company has an interest rate swap with a notional amount of \$25.0 million which fixed the LIBOR rate at 4.5% through April 30, 2002. This derivative instrument hedges future interest payments on a portion of the Company's bank credit facility. The fair value of this derivative instrument as of September 30, 2001 is a liability of \$290,000 which is reflected in the accompanying consolidated balance sheet.

### *New Accounting Standard -*

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations", which the Company will be required to adopt as of January 1, 2003. This statement requires the Company to record a liability in the period in which an asset retirement obligation ("ARO") is incurred. Upon recognition of an ARO liability, additional asset cost would be capitalized to equal the amount of the liability. Upon initial adoption of SFAS 143, the Company would recognize (1) a liability for any existing AROs not already provided for in the Company's reserve for future abandonment costs (2) capitalized cost related to the additional liability and (3) accumulated depreciation on the additional capitalized cost. The Company has not determined the effect, if any, the adoption of SFAS 143 will have on its financial statements.

## **(2) LONG-TERM DEBT -**

As of September 30, 2001 long-term debt is comprised of the following:

	(In thousands)
Revolving Bank Credit Facility .....	\$ 61,000
11¼% Senior Notes due 2007 .....	145,000
Other .....	417
	<hr/> 206,417
Less current portion .....	(417)
	<hr/> \$ 206,000

# **COMSTOCK RESOURCES, INC. AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(continued)**

The Company's bank credit facility consists of a \$250.0 million revolving credit commitment provided by a syndicate of banks for which Bank One, NA serves as administrative agent. Advances under the bank credit facility cannot exceed the borrowing base. The borrowing base under the bank credit facility is \$205.0 million. Such borrowing base may be affected from time to time by the performance of the Company's oil and gas properties and changes in oil and gas prices. The determination of the Company's borrowing base is at the sole discretion of the administrative agent and the bank group. The revolving credit line under the bank credit facility bears interest at the option of the Company, based on the utilization of the borrowing base, at either (i) LIBOR plus 1.25% to 2.0%, or (ii) the "corporate base rate" plus 0.25% to 1.0%. The Company incurs a commitment fee, based on the utilization of the borrowing base, of 0.25% to 0.5% per annum on the unused portion of the borrowing base. The revolving credit line matures on December 9, 2002 or such earlier date as the Company may elect. The Company's bank credit facility is secured by the Company's oil and gas properties.

The Company has \$145.0 million in aggregate principal amount of 11¼% Senior Notes due in 2007 (the "Notes") outstanding as of September 30, 2001. The Company repurchased and retired \$5.0 million of the Notes on July 19, 2001. Interest on the Notes is payable semiannually on May 1 and November 1. The Notes are unsecured obligations of the Company and are guaranteed by all of the Company's principal operating subsidiaries. The Company can redeem the Notes beginning on May 1, 2004.

### **(3) SUBSEQUENT EVENT -**

On November 12, 2001, the Company entered into an agreement and plan of merger (the "Merger Agreement") with DevX Energy, Inc. ("DevX") which provides for the Company to acquire DevX. Pursuant to the Merger Agreement, an indirect wholly owned subsidiary of the Company will offer to purchase, through a cash tender offer (the "Offer"), all of the outstanding shares of common stock of DevX for \$7.32 per share. The Offer is expected to commence on November 15, 2001, or as soon thereafter as is practicable, and to remain open for at least 20 business days. The Offer will be followed by a merger in which stockholders whose shares are not tendered in the Offer will receive \$7.32 per share in cash ("the Merger"). In the Merger, DevX will become a wholly owned subsidiary of the Company. The Offer is conditioned upon, among other things, greater than 50% of the outstanding shares being tendered (including shares issuable upon the exercise of the then outstanding options or warrants). The total consideration to be paid for the acquisition of all of the outstanding shares of common stock of DevX pursuant to the Offer and the Merger is approximately \$92.9 million. As of September 30, 2001, DevX had \$50.0 million in long-term debt outstanding which is expected to remain outstanding after the Merger.

## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

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

We have reviewed the accompanying consolidated balance sheet of Comstock Resources, Inc. (a Nevada corporation) as of September 30, 2001, and the related consolidated statements of operations for the nine-month and three-month periods ended September 30, 2001 and 2000, and the consolidated statements of cash flows for the nine-month periods ended September 30, 2001 and 2000. These financial statements are the responsibility of the company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with auditing standards generally accepted in the United States, the balance sheet of Comstock Resources, Inc. as of December 31, 2000, and, in our report dated February 16, 2001, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

ARTHUR ANDERSEN LLP

Dallas, Texas  
November 12, 2001

## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
<b>Net Production Data:</b>				
Oil (Mbbls) .....	371	449	1,184	1,386
Natural gas (Mmcft) .....	6,566	6,560	21,112	20,239
Natural gas equivalent (Mmcfe) .....	8,793	9,254	28,217	28,554
<b>Average Sales Price:</b>				
Oil (per Bbl) .....	\$ 26.26	\$ 31.37	\$ 27.17	\$ 29.63
Natural gas (per Mcft) .....	3.03	4.69	5.27	3.73
Average equivalent price (per Mcfe) .....	3.37	4.85	5.09	4.08
<b>Expenses (\$ per Mcfe):</b>				
Oil and gas operating(1) .....	\$ 0.82	\$ 0.76	\$ 0.89	\$ 0.76
General and administrative .....	0.07	0.09	0.09	0.07
Depreciation, depletion and amortization(2) ..	1.37	1.08	1.25	1.10
<b>Cash Margin (\$ per Mcfe)(3) .....</b>	<b>\$ 2.48</b>	<b>\$ 4.00</b>	<b>\$ 4.11</b>	<b>\$ 3.25</b>

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

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

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

#### *Revenues -*

Sales of oil and natural gas sales decreased \$15.2 million (34%) in the third quarter of 2001 to \$29.7 million, from \$44.9 million in 2000's third quarter. The decline in sales is due to a significant decrease to the Company's realized oil and gas prices combined with a 5% decrease in oil and gas production. The Company's average third quarter oil price decreased by 16% and its average third quarter gas price decreased by 35% in the third quarter 2001. For the first nine months of 2001, oil and gas sales increased \$27.0 million (23%) to \$143.5 million from \$116.5 million for the nine months ended September 30, 2000. The increase is primarily attributable to a 41% increase in the Company's average realized natural gas price in 2001 as compared to 2000.

Other income of \$113,000 in the third quarter of 2001 was comparable to other income of \$104,000 in the third quarter of 2000. Other income for the nine months ended September 30, 2001 increased \$140,000 in 2001 to \$381,000 from \$241,000 in the same period in 2000. The increases are related to gathering fee income from a new gathering system that was placed into operation in 2001.

#### *Costs and Expenses -*

Oil and gas operating expenses, including production taxes, increased 3% to \$7.3 million in the third quarter of 2001 from \$7.0 million in the third quarter of 2000. Oil and gas operating expenses per equivalent Mcf produced increased \$0.06 to \$0.82 in the third quarter of 2001 from \$0.76 in the third quarter of 2000. The increase is primarily related to the 5% decline in production in the third quarter of 2001 since most of the Company's lifting cost are fixed in nature. Oil and gas operating costs for the nine months ended September 30, 2001 increased \$3.4 million (16%) to \$25.1 million from \$21.7 million for the nine months ended September

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS  
(continued)**

30, 2000. Oil and gas operating expenses per equivalent Mcf produced increased \$0.13 to \$0.89 for nine months ended September 30, 2001 from \$0.76 for the same period in 2000. The increase is primarily attributable to higher production taxes as a result of the significantly higher natural gas prices in 2001 as well as an additional \$0.15 per Mcf charge that the Company has had to pay to process natural gas production from the Double A Wells field beginning January 1, 2001 due to the rise in natural gas prices which made processing natural gas uneconomical. The charge was eliminated beginning with June's production.

Exploration expense for the three months and nine months ended September 30, 2001 was \$63,000 and \$3.4 million respectively. The provision in 2001 primarily relates to the costs incurred for two offshore exploratory dry holes drilled in 2001.

Depreciation, depletion and amortization ("DD&A") increased \$2.0 million (20%) to \$12.4 million in the third quarter of 2001 from \$10.3 million in the third quarter of 2000 due to an increase in the Company's average amortization rate. DD&A per equivalent Mcf produced increased by \$0.29 to \$1.37 for the three months ended September 30, 2001 from \$1.08 for the quarter ended September 30, 2000. For the nine months ended September 30, 2001, DD&A increased \$4.0 million (12%) to \$36.5 million from \$32.5 million for the nine months ended September 30, 2000. The increase is also due to the higher average amortization rate. DD&A per equivalent Mcf increased by \$0.15 to \$1.25 for the nine months ended September 30, 2001 from \$1.10 for the nine months ended September 30, 2000.

General and administrative expenses, which are reported net of overhead reimbursements, of \$623,000 for the third quarter of 2001 were 24% lower than general and administrative expenses of \$824,000 for the third quarter of 2000. For the first nine months of 2001, general and administrative expenses increased to \$2.5 million as compared to \$2.0 million for the nine months ended September 30, 2000.

Interest expense decreased \$1.0 million (16%) to \$5.0 million for the third quarter of 2001 from \$6.0 million in the third quarter of 2000. Interest expense for the nine months ended September 30, 2001 decreased \$3.0 million (16%) to \$15.5 million from \$18.4 million for the nine months ended September 30, 2000. The decreases are attributable to lower borrowings outstanding under the Company's bank credit facility as well as lower interest rates charged under the bank credit facility. The average outstanding balance under the bank credit facility decreased to \$53.9 million in the third quarter of 2001 as compared to \$103.8 million in the third quarter of 2000. For the nine months ended September 30, 2001 the average outstanding balance under the bank credit facility decreased to \$58.9 million as compared to \$109.2 million for the same period in 2000. The weighted average annual interest rate for the Company's debt under the bank credit facility decreased to 5.3% for the third quarter of 2001 as compared to 6.6% for the same period in 2000. The weighted average annual rate for the first nine months of 2001 had decreased to 6.1%, as compared to 6.6% for the same period in 2000.

The Company reported net income of \$2.5 million, after preferred stock dividends of \$404,000 for the three months ended September 30, 2001, as compared to net income of \$12.1 million, after preferred stock dividends of \$686,000, for the three months ended September 30, 2000. Net income per common share for the third quarter was \$0.09 (\$0.09 per diluted common share) as compared to \$0.47 (\$0.37 per diluted common share) for the third quarter of 2000.

Net income for the nine months ended September 30, 2001 was \$38.5 million, after preferred stock dividends of \$1.2 million, as compared to net income of \$24.2 million after preferred stock dividends of \$2.1 million, for the nine months ended September 30, 2000. Net income per common share of the nine months ended September 30, 2001 was \$1.32 (\$1.14 per diluted common share) as compared to \$0.95 (\$0.77 per diluted common share) for the nine months ended September 30, 2000.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations", which the Company will be required to adopt as of January 1, 2003. This statement requires the Company to record a liability in the period in which an asset retirement obligation ("ARO") is incurred. Upon recognition of an ARO liability, additional asset cost would be capitalized to equal the amount of the liability. Upon initial adoption of SFAS 143, the Company would recognize (1) a liability for any existing AROs not already provided for in the Company's reserve for future abandonment costs (2) capitalized cost related to the additional liability and (3) accumulated depreciation on the additional capitalized cost. The Company has not determined the effect, if any, the adoption of SFAS 143 will have on its financial statements.

### Liquidity and Capital Resources

Funding for the Company's activities has historically been provided by operating cash flow, debt and equity financings and asset dispositions. In the first nine months of 2001, the Company's net cash flow provided by operating activities totaled \$97.1 million, before changes to other working capital accounts. In addition to operating cash flow, the Company borrowed \$23.0 million under its revolving bank credit facility. The Company's primary needs for capital, in addition to funding of ongoing operations, relate to the acquisition, development and exploration of oil and gas properties and the repayment of debt. In the first nine months of 2001, the Company incurred capital expenditures of \$81.8 million primarily for its acquisition, development and exploration activities and reduced amounts outstanding under the bank credit facility by \$51.0 million.

The following table summarizes the Company's capital expenditure activity for the nine months ended September 30, 2001 and 2000:

	Nine Months Ended September 30,	
	2001	2000
	(In thousands)	
Acquisitions .....	\$ 250	\$ 9,625
Other leasehold costs .....	8,141	6,385
Development drilling .....	38,158	26,573
Exploratory drilling .....	29,270	12,735
Offshore production facilities .....	834	1,098
Workovers and recompletions .....	5,037	8,055
Other .....	126	176
	<u>\$ 81,816</u>	<u>\$ 64,647</u>

The timing of most of the Company's capital expenditures is discretionary with no material long-term capital expenditure commitments. Consequently, the Company has a significant degree of flexibility to adjust the level of such expenditures as circumstances warrant. For the nine months ended September 30, 2001 and 2000, the Company spent \$81.4 million and \$54.8 million, respectively, on development and exploration activities. The Company expects to spend an additional \$13.0 million on development and exploration projects in the last quarter of 2001. The Company intends to primarily use internally generated cash flow to fund capital expenditures other than significant acquisitions.

The Company spent only \$250,000 on acquisitions in the nine months ended September 30, 2001 as compared to \$9.6 million spent on acquisition activities in the first nine months of 2000. The Company does

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS  
(continued)**

not have a specific acquisition budget as a result of the unpredictability of the timing and size of potential acquisition activities. The Company intends to use borrowings under its bank credit facility, or other debt or equity financings to the extent available, to finance significant acquisitions. The availability and attractiveness of these sources of financing will depend upon a number of factors, some of which will relate to the financial condition and performance of the Company, and some of which will be beyond the Company's control, such as prevailing interest rates, oil and gas prices and other market conditions.

The Company has a bank credit facility consisting of a \$250.0 million revolving credit commitment provided by a syndicate of banks for which Bank One, NA serves as administrative agent. Indebtedness under the bank credit facility is secured by substantially all of the Company's assets and is subject to borrowing base availability which is generally redetermined semiannually based on the banks' estimates of the future net cash flows of the Company's oil and gas properties. The borrowing base under the bank credit facility is \$205.0 million. Such borrowing base may be affected from time to time by the performance of the Company's oil and gas properties and changes in oil and gas prices. The determination of the Company's borrowing base is at the sole discretion of the administrative agent and the bank group. The revolving credit line under the bank credit facility bears interest at the option of the Company, based on the utilization of the borrowing base, at either (i) LIBOR plus 1.25% to 2.0% or (ii) the "corporate base rate" plus 0.25% to 1.0%. The Company's average rate under the bank credit facility as of September 30, 2001 was 4.9%. The Company incurs a commitment fee, based on the utilization of the borrowing base, of 0.25% to 0.5% per annum on the unused portion of the borrowing base. The revolving credit line matures on December 9, 2002 or such earlier date as the Company may elect.

The Company believes that cash flow from operations and available borrowings under the Company's bank credit facility will be sufficient to fund its operations and future growth as contemplated under its current business plan. However, if the Company's plans or assumptions change or if its assumptions prove to be inaccurate, the Company may be required to seek additional capital. Management cannot be assured that the Company will be able to obtain such capital or, if such capital is available, that the Company will be able to obtain it on acceptable terms.

On November 12, 2001, the Company entered into an agreement and plan of merger (the "Merger Agreement") with DevX Energy, Inc. ("DevX") which provides for the Company to acquire DevX. Pursuant to the Merger Agreement, an indirect wholly owned subsidiary of the Company will offer to purchase, through a cash tender offer (the "Offer"), all of the outstanding shares of common stock of DevX for \$7.32 per share. The Offer is expected to commence on November 15, 2001, or as soon thereafter as is practicable, and to remain open for at least 20 business days. The Offer will be followed by a merger in which stockholders whose shares are not tendered in the Offer will receive \$7.32 per share in cash ("the Merger"). In the Merger, DevX will become a wholly owned subsidiary of the Company. The Offer is conditioned upon, among other things, greater than 50% of the outstanding shares being tendered (including shares issuable upon the exercise of the then outstanding options or warrants). The total consideration to be paid for the acquisition of all of the outstanding shares of common stock of DevX pursuant to the Offer and the Merger is approximately \$92.9 million. As of September 30, 2001, DevX had \$50.0 million in long-term debt outstanding which is expected to remain outstanding after the Merger.



### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS**

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

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

The Company's financial condition, results of operations, and capital resources are highly dependent upon the prevailing market prices of, and demand for, oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond the control of the Company. These factors include the level of global demand for petroleum, foreign supply of oil and gas, the establishment of and compliance with production quotas by oil-exporting countries, weather conditions, the price and availability of alternative fuels, and overall economic conditions, both foreign and domestic. It is impossible to predict future oil and gas prices with any degree of certainty. Sustained weakness in oil and gas prices may adversely affect the Company's financial condition and results of operations, and may also reduce the amount of net oil and gas reserves that the Company can produce economically. Any reduction in oil and gas reserves, including reductions due to price fluctuations, can have an adverse affect on the Company's ability to obtain capital for its exploration and development activities. Similarly, any improvements in oil and gas prices can have a favorable impact on the Company's financial condition, results of operations and capital resources. Based on the Company's volume of oil and gas production in the first nine months of 2001, a \$1.00 change in the price per barrel of oil would result in a change in the Company's cash flow for such period of approximately \$1.2 million and a \$1.00 change in the price per Mcf of natural gas would result in a change in the Company's cash flow of approximately \$22.1 million.

The Company periodically has utilized hedging transactions with respect to a portion of its oil and gas production to mitigate its exposure to price fluctuations. While the use of these hedging arrangements limits the downside risk of price declines, such use may also limit any benefits which may be derived from price increases. The Company has primarily used price swaps, whereby monthly settlements are based on differences between the prices specified in the instruments and the settlement prices of certain futures contracts quoted on the NYMEX or certain other indices. Generally, when the applicable settlement price is less than the price specified in the contract, the Company receives a settlement from the counterparty based on the difference. Similarly, when the applicable settlement price is higher than the specified price, the Company pays the counterparty based on the difference. The Company did not hedge any of its oil or gas production in the first nine months of 2001 and currently has no open positions relating to its oil and natural gas production.

#### **Interest Rates**

The Company's outstanding long-term debt under its bank credit facility of \$61.0 million at September 30, 2001 is subject to floating market rates of interest. Borrowings under the credit facility bear interest at a fluctuating rate that is linked to LIBOR. Any increases in these interest rates can have an adverse impact on the Company's results of operations and cash flow. The Company has entered into an interest rate swap agreement to hedge the impact of interest rate changes on a substantial portion of its floating rate debt. As of September 30, 2001, the Company has an interest rate swap with a notional amount of \$25.0 million which fixed the LIBOR rate at an average rate of 4.5% through April 2002. As a result of the interest rate swap in place, the Company realized a loss of approximately \$60,000 for the nine months ended September 30, 2001. The fair value of the Company's open interest rate swap contract as of September 30, 2001 was a liability of \$290,000.

## PART II - OTHER INFORMATION

### ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

- 10.1 Amendment No. 1 dated October 3, 2001 to the Amended and Restated Credit Agreement dated as of November 7, 2000, between the Company, the Banks Party thereto and Bank One, NA, as Administrative Agent, Toronto Dominion (Texas), Inc., as Syndication Agent, Paribas, as Documentation Agent and Banc One Capital Markets, as Lead Arranger.

b. Reports on Form 8-K

Current reports on Form 8-K filed during the third quarter of 2001 and to the date of this filing are as follows:

<u>Report Date</u>	<u>Item</u>	<u>Subject of Report</u>
November 13, 2001	5	Cash Tender Offer for DevX Energy, Inc.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### COMSTOCK RESOURCES, INC.

Date November 14, 2001

/s/M. JAY ALLISON

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

Date November 14, 2001

/s/ROLAND O. BURNS

**Roland O. Burns**, Senior Vice President, Chief Financial Officer, Secretary, and Treasurer (Principal Financial and Accounting Officer)