

COMSTOCK OIL & GAS HOLDINGS INC

Form 424B5

March 01, 2011

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Filed Pursuant to Rule 424(b)(5)
File No. 333-162328

CALCULATION OF REGISTRATION FEE

Title of Each Class to be Registered	Amount to be Registered	Maximum Offering Price per Unit	Maximum Aggregate Offering Price	Amount of Registration Fee(1)
7.75% Senior Notes due 2019 Guarantees of 7.75% Senior Notes due 2019	\$ 300,000,000	100%	\$ 300,000,000	\$ 34,830

(2)

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933.

(2) Pursuant to Rule 457(n) of the Securities Act, no separate registration fee is payable for such guarantees.

PROSPECTUS SUPPLEMENT

(To prospectus dated October 5, 2009)

\$300,000,000

73/4% Senior Notes due 2019

We are offering \$300,000,000 million aggregate principal amount of 73/4% Senior Notes due 2019. We will pay interest on the notes on April 1 and October 1 of each year, beginning October 1, 2011. The notes will mature on April 1, 2019.

We may redeem some or all of the notes at any time on or after April 1, 2015 at the redemption prices described in this prospectus supplement. We may also redeem up to 35% of the notes prior to April 1, 2014 with cash proceeds we receive from certain equity offerings. If we sell certain assets and do not reinvest the proceeds or repay senior indebtedness or if we experience specific kinds of changes of control, we must offer to repurchase the notes.

The notes will initially be guaranteed by each of our subsidiaries that guarantees indebtedness under our credit facility and by certain of our future restricted subsidiaries. The notes and the guarantees will be our general unsecured senior obligations and will rank equal in right of payment with all of our other existing and future senior unsecured indebtedness that is not by its terms subordinated to the notes, including our 67/8% Senior Notes due 2012 and our 83/8% Senior Notes due 2017. The notes will be effectively subordinated to all our existing and future secured indebtedness to the extent of the collateral securing such indebtedness, including our bank credit facility.

Investing in the notes involves risks that are described in the Risk Factors section beginning on page S-10 of this prospectus supplement and page 4 of the accompanying prospectus.

	Per Note	Total
Public Offering Price (1)	100.0%	\$ 300,000,000
Underwriting Discount	2.0%	\$ 6,000,000
Proceeds, before expenses to us (1)	98.0%	\$ 294,000,000

(1) Plus accrued interest, if any, from March 14, 2011, if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The notes will be ready for delivery in book-entry form only through the facilities of The Depository Trust Company for the accounts of its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, and Clearstream Banking, *société anonyme*, on or about March 14, 2011.

BofA Merrill Lynch	<i>Joint Book-Running Managers</i> BMO Capital Markets	J.P. Morgan
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Co-Managers

BBVA Securities Comerica Securities Morgan Keegan SunTrust Robinson Humphrey	BNP PARIBAS Lloyds Securities Inc. Natixis Securities N.A.	Capital One Southcoast Mitsubishi UFJ Securities Scotia Capital US Bancorp
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The date of this prospectus supplement is February 28, 2011

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Prospectus

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not, and the underwriters are not, making an offer of these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information we have included in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date of this

prospectus supplement or the accompanying prospectus or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. If the information varies between this prospectus supplement and the accompanying prospectus, the information in this prospectus supplement supersedes the information in the accompanying prospectus.

We expect that delivery of the notes will be made to investors on or about March 14, 2011, which will be the tenth business day following the date of this prospectus supplement (such settlement being referred to as T+10). Under Rule 15(c)6-1 under the Securities Exchange Act of 1934, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes prior to the delivery of the notes hereunder will be required, by virtue of the fact that the notes initially settle in T+10, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes prior to their date of delivery hereunder should consult their advisors.

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ABOUT THIS PROSPECTUS SUPPLEMENT

The first part of this document is this prospectus supplement, which describes our business and the specific terms of this offering. The second part is the accompanying base prospectus, which we call the accompanying prospectus, and which gives more general information than this prospectus supplement, some of which may not apply to this offering. Generally, when we refer to prospectus, we are referring to both parts combined.

IF THE INFORMATION IN THIS PROSPECTUS SUPPLEMENT IS INCONSISTENT WITH THE INFORMATION IN THE ACCOMPANYING PROSPECTUS, YOU SHOULD RELY ON THE INFORMATION IN THIS PROSPECTUS SUPPLEMENT.

You should read this prospectus supplement and the accompanying prospectus carefully before you invest. Both documents contain information you should consider when deciding to purchase the notes. In addition, we incorporate important business and financial information in this prospectus supplement and the accompanying prospectus by reference to other documents. You should read and consider the information in the documents to which we have referred you in the section captioned *Where You Can Find More Information* in the accompanying base prospectus.

For some of the natural gas and oil industry terms used in this prospectus supplement we have provided definitions in the section captioned *Definitions* in this prospectus supplement.

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WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Exchange Act, and therefore we file annual, quarterly and current reports, proxy statements, and other documents with the SEC. You may read and copy any of the reports, proxy statements, and any other information that we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You 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 at <http://www.sec.gov> that contains reports, proxies, information statements, and other information regarding registrants, including us, that file electronically with the SEC. We also maintain a website at <http://www.comstockresources.com>; however, the information contained at this website does not constitute part of this prospectus or any prospectus supplement. Reports, proxies, information statements, and other information about us may also be inspected at the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We have filed with the SEC a registration statement on Form S-3 under the Securities Act, with respect to the securities offered in this prospectus. This prospectus is part of that registration statement and, as permitted by the SEC's rules, does not contain all of the information set forth in the registration statement. For further information about us and the securities that may be offered, we refer you to the registration statement and the exhibits that are filed with it. You can review and copy the registration statement and its exhibits and schedules at the addresses listed above.

The SEC allows us to incorporate by reference into this prospectus certain information we file with the SEC in other documents. This means that we can disclose important information to you by referring you to other documents that we file with the SEC. The information may include documents filed after the date of this prospectus which update and supersede the information you read in this prospectus. We incorporate by reference the documents listed below, except to the extent information in those documents is different from the information contained in this prospectus, and all future documents filed by us with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act (other than current reports furnished under Item 2.02 or Item 7.01 of Form 8-K) until the offering of the securities described herein is terminated:

Our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 22, 2011;

Our Current Reports on Form 8-K, filed with the SEC on February 23, 2011 and February 28, 2011; and

The description of our common stock, par value \$0.50 per share, contained in the Company's registration statement on Form 8-A (Registration Statement No. 001-03262) filed with the SEC on December 6, 1996, pursuant to Section 12 of the Exchange Act, including any amendment or report filed for the purpose of updating such description.

Any statement contained in a document incorporated, or deemed to be incorporated, by reference in this prospectus shall be deemed modified, superseded, or replaced for purposes of this prospectus to the extent that a statement contained in this prospectus or in any subsequently filed document that also is, or is deemed to be incorporated, by reference in this prospectus modifies, supersedes, or replaces such statement. Any statement so modified, superseded, or replaced shall not be deemed, except as so modified, superseded, or replaced, to constitute a part of this prospectus.

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We will provide without charge to each person, including any beneficial owner, to whom a copy of this prospectus is delivered, upon that person's written or oral request, a copy of any or all of the information incorporated by reference in this prospectus (other than exhibits to those documents, unless the exhibits are specifically incorporated by reference into those documents). Requests should be directed to:

Comstock Resources, Inc.
Attention: Roland O. Burns, Senior Vice President
5300 Town and Country Blvd., Suite 500
Frisco, Texas 75034
Telephone number: (972) 668-8800

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein and our public releases, include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are identified by use of terms such as expect, estimate, anticipate, project, plan, intend, believe, may, will, would, and similar statements, other than statements of historical or current facts, included in this prospectus, are forward-looking statements, including statements 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 prospectus 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 prospectus;
- 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, the status of the financial markets, and competitive conditions;
- our ability to retain key members of our senior management and other 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.

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This summary is not complete and may not contain all of the information that may be important to you. You should read the entire prospectus supplement, accompanying prospectus and all documents incorporated by reference, including the risk factors and the financial statements and related notes, before deciding to purchase the notes. Unless otherwise indicated, or unless the context otherwise requires, all references to Comstock, we, us, and our in this prospectus supplement mean Comstock Resources, Inc. and our consolidated subsidiaries.

Our Business

We are a Nevada corporation engaged in the acquisition, development, production and exploration of oil and natural gas. Our common stock is listed and traded on the New York Stock Exchange under the ticker symbol CRK. Our oil and gas operations are concentrated in East Texas/North Louisiana and South Texas. Our oil and natural gas properties are estimated to have proved reserves of 1,051.0 Bcfe with an estimated PV 10 Value of \$797.6 million as of December 31, 2010 and a standardized measure of discounted future net cash flows of \$606.1 million. Our consolidated proved oil and natural gas reserve base is 98% natural gas and 50% proved developed on a Bcfe basis as of December 31, 2010.

Our proved reserves at December 31, 2010 and our 2010 average daily production are summarized below:

	Reserves at December 31, 2010				2010 Average Daily Production			
	Oil (MMBbls)	Natural Gas (Bcf)	Total (Bcfe)	% of Total	Oil (MBbls/d)	Natural Gas (MMcf/d)	Total (MMcfe/d)	% of Total
East Texas / North Louisiana	1.2	862.9	870.4	82.8%	0.4	142.6	145.0	72.2%
South Texas	2.9	141.1	158.3	15.1%	0.4	39.5	42.1	21.0%
Other Regions	0.1	21.7	22.3	2.1%	1.1	6.9	13.6	6.8%
Total	4.2	1,025.7	1,051.0	100.0%	1.9	189.0	200.7	100.0%

Strengths

High Quality Properties. Our operations are focused in two primary operating areas, the East Texas/North Louisiana and South Texas regions. Our properties have an average reserve life of approximately 14.3 years and have extensive development and exploration potential. We have a substantial acreage position in our East Texas/North Louisiana region in the Haynesville or Bossier shale resource play where we have identified 91,011 gross (79,457 net to us) acres prospective for Haynesville or Bossier shale development. During 2010 we also acquired 20,859 acres (18,320 net to us) in South Texas which are prospective for development of the Eagle Ford shale formation.

Successful Exploration and Development Program. In 2010 we spent \$536.7 million on exploration and development activities. We drilled 78 wells in 2010, 49.3 net to us, at a cost of \$390.6 million. We spent \$134.7 million to acquire additional leases, \$3.2 million on other leasehold costs and \$2.6 million to acquire seismic data. We also spent \$5.6 million for recompletions, workovers, abandonment and production facilities. Our drilling activities in 2010

added 431 Bcfe to our proved reserves and increased our production by 12% in 2010. Due to unavailability of completion services in 2010 we only completed 37 (21.6 net to us) of the 72 (45.0 net to us) Haynesville or Bossier shale wells that we drilled. We expect to complete all of the remaining wells drilled in 2010 during 2011.

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Efficient Operator. We operate 92% of our proved oil and natural gas reserve base as of December 31, 2010. 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.

Successful Acquisitions. We have had significant growth over the years as a result of our acquisition activity. In recent years, however, we have not made any acquisitions; in 2010 we focused exclusively on drill bit growth. Since 1991, we have added 984 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.

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 that we have been developing. We drilled eight pilot wells to evaluate the prospectivity of the Haynesville shale in 2007 and 2008. We undertook an active leasing program in 2008 through 2010 to acquire additional acreage where we believed the Haynesville shale formation would be prospective and spent \$116.9 million in 2008, \$26.9 million in 2009 and \$55.8 million in 2010 to increase our leasehold with Haynesville or Bossier shale potential to 91,011 gross acres (79,457 net to us). We started the commercial development of the Haynesville or Bossier shale in late 2008 and have drilled 118 (77.7 net to us) successful horizontal wells through the end of 2010. In 2010, our drilling program was primarily focused on exploring and developing our Haynesville and Bossier shale acreage and we spent approximately \$295.6 million drilling 72 (45.0 net to us) Haynesville and Bossier shale horizontal wells which added 402 Bcfe to our proved reserves in 2010. We plan to continue to develop our Haynesville and Bossier shale acreage in 2011 and have budgeted to spend \$348.0 million to drill 45 (27.5 net to us) Haynesville and Bossier shale horizontal wells and to complete our wells that were in progress at the end of 2010.

During 2010 we spent approximately \$81.4 million to acquire 20,859 acres (18,320 net to us) in South Texas which we believe to be prospective for the production of liquid hydrocarbons in the Eagle Ford shale formation. We spent approximately \$25.6 million to drill three wells (3.0 net to us) in 2010 on our Eagle Ford shale properties. Our Eagle Ford shale drilling program added 10 Bcfe to our proved reserves in 2010. We plan to continue to evaluate our Eagle Ford shale properties during 2011 and have budgeted \$169.3 million to drill 22 wells (22.0 net to us) during 2011.

We may also make additional property acquisitions in 2011 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.

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Recent Developments

Tender Offer for Our 67/8% Senior Notes

Concurrently with the launch of this offering, we commenced a cash tender offer to purchase any and all of our outstanding 67/8% Senior Notes due 2012 (the 2012 Notes). The aggregate principal amount outstanding of the 2012 Notes is \$172.0 million. We are also soliciting consents to certain proposed amendments to the indenture governing the 2012 Notes. We are offering to purchase the 2012 Notes for cash equal to 99.25% of their principal amount, together with accrued and unpaid interest to the purchase date, and pay for consents to the indenture amendments in an amount equal to an additional 1.0% of the principal amount of 2012 Notes tendered before 5:00 p.m., New York City time, on March 11, 2011, unless extended by us. No consent fees will be paid to holders who tender their notes after 5:00 p.m., New York City time, on March 11, 2011 and prior to the expiration of the tender offer at 8:00 a.m., New York City time, on March 28, 2011, unless extended by us. Our offer to purchase the 2012 Notes is being made on the terms and subject to the conditions set forth in an Offer to Purchase and Consent Solicitation Statement dated February 28, 2011.

The total amount of funds required to purchase all of the outstanding 2012 Notes pursuant to the tender offer, to make the related consent payments and to pay all expenses in connection therewith is expected to be approximately \$172.4 million assuming all outstanding 2012 Notes are validly tendered (excluding payment of accrued and unpaid interest). The completion of the tender offer is not a condition to the closing of this offering. The closing of the tender offer is subject to the satisfaction (or waiver by us) in each case in our sole discretion of certain conditions, including securing financing for the tender offer and certain other conditions. There is no assurance that the tender offer for the 2012 Notes will be subscribed for in any amount.

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THE OFFERING

The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The Description of the Notes section of this prospectus supplement contains a more detailed description of the terms and conditions of the notes.

Issuer	Comstock Resources, Inc.
Notes Offered	\$300,000,000 in aggregate principal amount of senior notes due 2019.
Maturity Date	April 1, 2019
Interest Rate and Payment Dates	7.75% per annum payable on April 1 and October 1 of each year, commencing on October 1, 2011.
Ranking	<p>The notes and the guarantees will be our and the guarantors' senior unsecured obligations and will:</p> <ul style="list-style-type: none"> rank equally in right of payment with all of our and the guarantors' existing and future senior indebtedness; rank senior in right of payment to all of our and the guarantors' existing and future subordinated indebtedness; be structurally subordinated in right of payment to all of our and the guarantors' existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness (including all of our borrowings and the guarantors' guarantees under our bank credit facility); and be structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of our subsidiaries that is not also a guarantor of the notes. <p>As of December 31, 2010, after giving effect to the issuance and sale of the notes and the application of the estimated net proceeds therefrom as set forth under Use of Proceeds to fund our pending tender offer and consent solicitation for our 2012 Notes, we would have had total consolidated indebtedness of \$596.4 million, consisting of \$300.0 million of the notes offered hereby and our 83/8% senior notes due 2017, and approximately \$468.8 million of secured indebtedness would have been available for borrowing under our bank credit facility. The subsidiary guarantors would have had total indebtedness of \$596.4 million, consisting of their guarantees of our notes. For further discussion, see Description of Other Indebtedness.</p>
Optional Redemption	We may redeem the notes, in whole or in part, at any time on or after April 1, 2015 at the redemption prices described under Description of the Notes Redemption, plus accrued interest, if any, to the date of redemption.

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In addition, on or before April 1, 2014 we may redeem up to 35% of the notes at the redemption price listed in Description of the Notes Redemption with the net proceeds of certain equity offerings. However, we may only make such redemptions if at least 65% of the aggregate principal amount of notes initially issued under the indenture remain outstanding immediately after such redemption.

Change of Control

If we experience a Change of Control (as defined under Description of the Notes Certain Definitions), we must offer to purchase the notes at 101% of the aggregate principal amount of the notes, plus accrued interest, if any, to the date of purchase.

Guarantees

The payment of principal and interest on the notes will be unconditionally guaranteed on a senior basis jointly and severally initially by each of our existing subsidiaries that guarantees indebtedness under our credit facility and by certain of our future restricted subsidiaries. Such guarantees will rank equally with all other unsecured senior indebtedness of these subsidiary guarantors.

Certain Covenants

The indenture governing the notes will contain certain covenants that, among other things, restrict our ability and the ability of certain of our subsidiaries to:

incur or guarantee additional indebtedness or issue disqualified capital stock;

pay dividends or make distributions in respect of capital stock;

repurchase or redeem capital stock;

make certain investments and other restricted payments;

create liens;

enter into transactions with affiliates;

engage in sale/leaseback transactions;

sell assets;

issue or sell preferred stock of certain subsidiaries; and

engage in mergers or consolidations.

These covenants are subject to important exceptions and qualifications described under Description of the Notes Certain Covenants.

Covenant Suspension

At any time when the notes are rated investment grade by both Moody's Investor Services and Standard & Poor's Rating Services and no default or event of default has occurred and is continuing under the indenture, we and our subsidiaries will not be subject to

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many of the foregoing covenants. See Description of the Notes Covenant Suspension.

No Public Market

The notes are a series of securities for which there is currently no established trading market. The underwriters have advised us that they presently intend to make a market in the notes. However, you should be aware that they are not obligated to make a market in the notes and may discontinue their market-making activities at any time without notice. As a result, a liquid market for the notes may not be available if you try to sell your notes. We do not intend to apply for a listing of the notes on any securities exchange or any automated dealer quotation system.

Use of Proceeds

The net proceeds from this offering, after deducting underwriting discounts and estimated expenses of the offering, will be approximately \$293.5 million. We intend to use the net proceeds from this offering to fund the pending tender offer and consent solicitation of the 2012 Notes as well as redeeming any such notes outstanding following the tender offer. Any remaining proceeds will be used to repay amounts borrowed under our bank credit facility. Funds repaid on our bank credit facility may be reborrowed for general corporate purposes.

Risk Factors

Investing in the notes involves a high degree of risk that you should carefully evaluate before deciding to purchase the notes. Please read sections captioned Risk Factors beginning on page S-10 of this prospectus supplement and page 4 of the accompanying prospectus, including all sections discussing risks and uncertainties in the documents incorporated by reference herein and therein.

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The following tables present a summary of our historical financial data as of and for the periods indicated. The financial results are not necessarily indicative of our future operations or future financial results. In the opinion of management, such information contains all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results of such periods. 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 contained in our Annual Report on Form 10-K for the year ended December 31, 2010, which is incorporated by reference herein. During 2008, we divested our interests in offshore operations, which were conducted through our subsidiary 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,		
	2008	2009	2010
	<i>(In thousands, except per share data)</i>		
Revenues:			
Oil and gas sales	\$ 563,749	\$ 292,583	\$ 349,141
Gain on sale of properties	26,560	213	
Total revenues	590,309	292,796	349,141
Operating expenses:			
Production taxes	20,648	8,643	9,894
Gathering and transportation	3,910	8,696	17,256
Lease operating (1)	62,172	53,560	53,525
Exploration	5,032	907	2,605
Depreciation, depletion and amortization	182,179	213,238	213,809
Impairment of oil and gas properties	922	115	224
Loss on sale of properties			26,632
General and administrative, net	32,266	39,172	37,200
Total operating expenses	307,129	324,331	361,145
Income (loss) from operations	283,180	(31,535)	(12,004)
Other income (expenses):			
Interest income	1,537	245	263
Other income	119	133	236
Interest expense	(25,336)	(16,086)	(29,456)
Marketable securities impairment	(162,672)		
Gain on sale of marketable securities			16,529
Total other income (expenses)	(186,352)	(15,708)	(12,428)
Income (loss) from continuing operations before income taxes	96,828	(47,243)	(24,432)
Benefit from (provision for) income taxes	(38,611)	10,772	4,846
Income (loss) from continuing operations	58,217	(36,471)	(19,586)

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Income (loss) from discontinued operations	193,745(2)		
Net income (loss)	\$ 251,962	\$ (36,471)	\$ (19,586)
Basic net income (loss) per share:			
Continuing operations	\$ 1.27	\$ (0.81)	\$ (0.43)
Discontinued operations	4.23		
	\$ 5.50	\$ (0.81)	\$ (0.43)
Diluted net income (loss) per share:			
Continuing operations	\$ 1.26	\$ (0.81)	\$ (0.43)
Discontinued operations	4.20		
	\$ 5.46	\$ (0.81)	\$ (0.43)
Weighted average shares outstanding:			
Basic	44,524	45,004	45,561
Diluted	44,813	45,004(3)	45,561(3)

(1) Includes ad valorem taxes.

(2) Includes gain of \$158.1 million, net of income taxes of \$85.3 million, from the sale of our offshore operations.

(3) Basic and diluted weighted average shares are the same due to the net loss.

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	2008	As of December 31, 2009	2010
		<i>(In thousands)</i>	
Cash and cash equivalents	\$ 6,281	\$ 90,472	\$ 1,732
Property and equipment, net	1,444,715	1,576,287	1,816,248
Total assets	1,577,890	1,858,961	1,964,214
Total debt	210,000	470,836	513,372
Stockholders' equity	1,062,085	1,066,111	1,068,531

Cash Flow Data:

	2008	Year Ended December 31, 2009	2010
		<i>(In thousands)</i>	
Cash flows provided by operating activities from continuing operations	\$ 450,533	\$ 176,257	\$ 311,662
Cash flows used for investing activities from continuing operations	(289,194)	(348,777)	(440,473)
Cash flows provided by (used for) financing activities from continuing operations	(452,883)	256,711	40,071
Cash flows provided by discontinued operations	292,260		

Summary Operating Data

The following table sets forth certain of our summary operating data for the periods indicated:

	2008	Year Ended December 31, 2009	2010
Net Production Data			
Natural gas (MMcf)	53,867	60,820	68,973
Oil (MBbls)	1,009	775	715
Natural gas equivalent (MMcfe)	59,923	65,468	73,262
Average Sales Price:			
Oil (\$/Bbl)	\$ 87.15	\$ 50.94	\$ 68.35
Natural gas (\$/Mcf)	\$ 8.92	\$ 3.73	\$ 4.35
Natural gas including hedging (\$/Mcf)	\$ 8.83	\$ 4.16	\$ 4.35
Average equivalent price (\$/Mcf)	\$ 9.49	\$ 4.07	\$ 4.77
Average equivalent price including hedging (\$/Mcf)	\$ 9.41	\$ 4.47	\$ 4.77
Expenses (\$ per Mcfe):			
Production taxes	\$ 0.34	\$ 0.13	\$ 0.14
Gathering and transportation	\$ 0.07	\$ 0.13	\$ 0.24
Lease operating (1)	\$ 1.04	\$ 0.82	\$ 0.72

Depreciation, depletion and amortization (2)	\$ 3.03	\$ 3.25	\$ 2.91
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(1) Includes ad valorem taxes.

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

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The following table summarizes the estimates of our net proved oil and natural gas reserves as of the dates indicated and the present value attributable to these reserves at such dates based on reserve reports prepared by Lee Keeling and Associates, Inc. For additional information relating to our oil and natural gas reserves, see Risk Factors. 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 and

Business and Properties Oil and Natural Gas Reserves, contained in our Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated by reference herein.

	As of December 31,		
	2008	2009	2010
PROVED RESERVES			
Natural Gas (MMcf)	523,643	682,389	1,025,633
Oil (Mbbls)	9,668	7,214	4,219
Total (MMcfe)	581,653	725,675	1,050,950
PV 10 Value of Proved Reserves (000 \$) (1)	\$ 820,110	\$ 489,114	\$ 797,626
PROVED DEVELOPED RESERVES			
Natural Gas (MMcf)	354,934	367,102	506,809
Oil (Mbbls)	5,446	4,894	2,961
Total (MMcfe)	387,612	396,469	524,573

- (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%.

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RISK FACTORS

In deciding whether to purchase the notes, you should carefully consider the risks described below and in the Risk Factors section on page 4 of the accompanying prospectus, any of which could cause our operating results and financial condition to be materially adversely affected, as well as other information and data included in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein.

Risks Related to This Offering

Our substantial indebtedness could limit our flexibility, adversely affect our financial health and prevent us from making payments on the notes.

We have, and after this offering will continue to have, a substantial amount of indebtedness. As of December 31, 2010, after giving effect to this offering and the use of proceeds therefrom, we and the subsidiary guarantors would have had no secured indebtedness outstanding to which the notes and the subsidiary guarantees would have been effectively subordinated, and approximately \$468.8 million of secured indebtedness would have been available for borrowing under our bank credit facility.

Our substantial indebtedness could have important consequences to you. For example, it could:

- make it difficult for us to satisfy our obligations with respect to the notes;
- make us more vulnerable to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow for operations and other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- place us at a competitive disadvantage compared to competitors that may have proportionately less indebtedness.

In addition, our ability to make scheduled payments or to refinance our obligations depends on our successful financial and operating performance. We cannot assure you that our operating performance will generate sufficient cash flow or that our capital resources will be sufficient for payment of our indebtedness obligations in the future. Our financial and operating performance, cash flow and capital resources depend upon prevailing economic conditions and certain financial, business and other factors, many of which are beyond our control.

If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to sell material assets or operations, obtain additional capital or restructure our debt. In the event that we are required to dispose of material assets or operations or restructure our debt to meet our debt service and other obligations, we cannot assure you as to the terms of any such transaction or how quickly any such transaction could be completed, if at all.

We may incur substantial additional indebtedness in the future. Our incurrence of additional indebtedness would intensify the risks described above.

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The instruments governing our indebtedness will contain various covenants limiting the discretion of our management in operating our business.

The indenture governing the notes and our bank credit facility contain various restrictive covenants that limit our management's discretion in operating our business. In particular, these agreements will limit our ability to, among other things:

- incur additional indebtedness, guarantee obligations or issue disqualified capital stock;
- pay dividends or distributions on our capital stock or redeem, repurchase or retire our capital stock;
- make investments or other restricted payments;
- grant liens on assets;
- enter into transactions with stockholders or affiliates;
- engage in sale/leaseback transactions;
- sell assets;
- issue or sell preferred stock of certain subsidiaries; and
- merge or consolidate.

In addition, our bank credit facility also requires us to maintain a minimum current ratio and a minimum tangible net worth.

If we fail to comply with the restrictions in the indenture governing the notes, our bank credit facility or any other subsequent financing agreements, a default may allow the creditors, if the agreements so provide, to accelerate the related indebtedness as well as any other indebtedness to which a cross-acceleration or cross-default provision applies. If that occurs, we may not be able to make all of the required payments or borrow sufficient funds to refinance such debt. Even if new financing were available at that time, it may not be on terms acceptable to us. In addition, lenders may be able to terminate any commitments they had made to make available further funds.

Any failure to meet our debt obligations could harm our business, financial condition and results of operations.

If our cash flow and capital resources are insufficient to fund our debt obligations, we may be forced to sell assets, seek additional equity or debt capital or restructure our debt. In addition, any failure to make scheduled payments of interest and principal on our outstanding indebtedness would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on acceptable terms to us, if at all. Our cash flow and capital resources may be insufficient for payment of interest on and principal of our debt in the future, including payments on the notes, and any such alternative measures may be unsuccessful or may not permit us to meet scheduled debt service obligations, which could cause us to default on our obligations and impair our liquidity.

We may be unable to purchase your notes upon a change of control.

Upon the occurrence of a change of control, as defined in the indenture governing the notes, we will be required to offer to purchase your notes. We may not have sufficient financial resources to purchase all of

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the notes that holders tender to us upon a change of control offer, or might be prohibited from doing so under our bank credit facility or our other indebtedness. The occurrence of a change of control also could constitute an event of default under our bank credit facility or our other indebtedness. See Description of the Notes Certain Covenants Change of Control.

The change of control put right might not be enforceable.

In a recent court decision, the Chancery Court of Delaware raised the possibility that a change of control put right occurring as a result of a failure to have continuing directors comprising a majority of a board of directors might be unenforceable on public policy grounds. Therefore, you may not be entitled to receive this protection under the indenture.

The notes and the guarantees are effectively subordinated to all of our and our subsidiary guarantors secured indebtedness and all indebtedness of our non-guarantor subsidiaries.

The notes will not be secured. The borrowings under our bank credit facility are secured by liens on all of our and our subsidiary guarantors assets. If we or any of these subsidiary guarantors declare bankruptcy, liquidate or dissolve, or if payment under the bank credit facility or any of our other secured indebtedness is accelerated, our secured lenders would be entitled to exercise the remedies available to a secured lender under applicable law and will have a claim on those assets before the holders of the notes. As a result, the notes are effectively subordinated to our and our subsidiaries secured indebtedness to the extent of the value of the assets securing that indebtedness, and the holders of the notes would in all likelihood recover ratably less than the lenders of our and our subsidiaries secured indebtedness in the event of our bankruptcy, liquidation or dissolution. As of December 31, 2010, after giving effect to this offering and the use of proceeds therefrom, we and the subsidiary guarantors would have had no secured indebtedness outstanding to which the notes and the subsidiary guarantees would have been effectively subordinated, and approximately \$468.8 million of secured indebtedness would have been available for borrowing under our bank credit facility.

In addition, the notes will be structurally subordinated to all of the liabilities of our subsidiaries that do not guarantee the notes. In the event of a bankruptcy, liquidation or dissolution of any of the non-guarantor subsidiaries, holders of their indebtedness, their trade creditors and holders of their preferred equity will generally be entitled to payment on their claims from assets of those subsidiaries before any assets are made available for distribution to us.

Federal and state statutes allow courts, under specific circumstances, to void the guarantees and require noteholders to return payments received from the guarantors.

Creditors of any business are protected by fraudulent conveyance laws which differ among various jurisdictions, and these laws may apply to the issuance of the guarantees by our subsidiary guarantors. The guarantee may be voided by a court, or subordinated to the claims of other creditors, if, among other things:

the indebtedness evidenced by the guarantees was incurred by a subsidiary guarantor with actual intent to hinder, delay or defraud any present or future creditor of such subsidiary guarantor; or

our subsidiary guarantors did not receive fair consideration or reasonably equivalent value for issuing the guarantees, and the applicable subsidiary guarantors:

- (1) were insolvent, or were rendered insolvent by reason of issuing the applicable guarantee,
- (2)

were engaged or about to engage in a business or transaction for which the remaining assets of the applicable subsidiary guarantor constituted unreasonably small capital, or

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- (3) intended to incur, or believed that we or they would incur, indebtedness beyond our or their ability to pay as they matured.

In addition, any payment by such subsidiary guarantor pursuant to any guarantee could be voided and required to be returned to such subsidiary guarantor, or to a fund for the benefit of creditors of such subsidiary guarantor.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a subsidiary guarantor would be considered insolvent if:

the sum of such subsidiary guarantor's debts, including contingent liabilities, were greater than the fair saleable value of all of such subsidiary guarantor's assets;

the present fair saleable value of such subsidiary guarantor's assets were less than the amount that would be required to pay such subsidiary guarantor's probable liability on existing debts, including contingent liabilities, as they become absolute and mature; or

any subsidiary guarantor could not pay debts as they become due.

Based upon financial and other information, we believe that the guarantees are being incurred for proper purposes and in good faith and that each subsidiary guarantor is solvent and will continue to be solvent after this offering is completed, will have sufficient capital for carrying on its business after such issuance and will be able to pay its indebtedness as they mature. We cannot assure you, however, that a court reviewing these matters would agree with us. A legal challenge to a guarantee on fraudulent conveyance grounds may focus on the benefits, if any, realized by us or the subsidiary guarantors as a result of our issuance of the guarantees.

Receipt of payment on the notes, as well as the enforcement of remedies under the subsidiary guarantees, may be limited in bankruptcy or in equity.

An investment in the notes, as in any type of security, involves insolvency and bankruptcy considerations that investors should carefully consider. If we or any of our subsidiary guarantors become a debtor subject to insolvency proceedings under the bankruptcy code, it is likely to result in delays in the payment of the notes and in the exercise of enforcement remedies under the notes or the subsidiary guarantees. Provisions under the bankruptcy code or general principles of equity that could result in the impairment of your rights include the automatic stay, avoidance of preferential transfers by a trustee or a debtor-in-possession, substantive consolidation, limitations of collectability of unmatured interest or attorneys' fees and forced restructuring of the notes.

If a bankruptcy court substantively consolidated us and our subsidiaries, the assets of each entity would be subject to the claims of creditors of all entities. This would expose you not only to the usual impairments arising from bankruptcy, but also to potential dilution of the amount ultimately recoverable because of the larger creditor base. Furthermore, forced restructuring of the notes could occur through the cram-down provision of the bankruptcy code. Under this provision, the notes could be restructured over your obligations as to their general terms, primarily interest rate and maturity.

Your ability to resell the notes may be limited by a number of factors and the prices for the notes may be volatile.

The notes will be a new class of securities for which there currently is no established market, and we cannot assure you that any active or liquid trading market for these notes will develop. We do not intend to apply for listing of the

notes on any securities exchange or on any automated dealer quotation system.

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Although we have been informed by the underwriters that they currently intend to make a market in the notes, they are not obligated to do so and any market-making may be discontinued at any time without notice. See **Underwriting**. If a market for the notes were to develop, the notes could trade at prices that may be higher or lower than reflected by their initial offering price, depending on many factors, including among other things:

- changes in the overall market for non-investment grade securities;
- changes in our financial performance or prospects;
- the prospects for companies in our industry generally;
- the number of holders of the notes;
- the interest of securities dealers in making a market for the notes; and
- prevailing interest rates.

In addition, the market for non-investment grade indebtedness has been historically subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes offered hereby. The market for the notes, if any, may be subject to similar disruptions. Any such disruption could adversely affect the value of your notes.

A ratings agency downgrade could lead to increased borrowing costs and credit stress.

If one or more rating agencies that rate the notes either assigns the notes a rating lower than the rating expected by the investors, or reduces its rating in the future, the market price of the notes, if any, would be adversely affected. In addition, if any of our other outstanding debt that is rated is downgraded, raising capital will become more difficult for us, borrowing costs under our bank credit facility and other future borrowings may increase and the market price of the notes, if any, may decrease.

If the notes receive an investment grade rating, many of the covenants in the indenture governing the notes will be suspended, thereby reducing some of your protections in the indenture.

If at any time the notes receive investment grade ratings from both Standard & Poor's Rating Services and Moody's Investor Services, subject to certain additional conditions, many of the covenants in the indenture governing the notes, applicable to us and our restricted subsidiaries, including the limitations on indebtedness and disqualified capital stock and restricted payments, will be suspended. While these covenants will be reinstated if we fail to maintain investment grade ratings on the notes or in the event of a continuing default or event of default thereunder, during the suspension period noteholders will not have the protection of these covenants and we will have greater flexibility to incur indebtedness and make restricted payments.

Risks Related to the Business

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;

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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 natural gas that first started in 2008 continues through 2011, 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.

In the future we may enter into 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 recent 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 have been in a recession which could continue through 2011 and beyond, and the capital markets have experienced significant volatility. The recession has had an adverse impact on demand and pricing for crude oil and natural gas. A continuation of the recession could have a further negative impact on oil and natural gas prices. Our operating cash flows and profitability will be significantly affected by declining oil and natural gas prices. Further 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

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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.

Federal hydraulic fracturing legislation could increase our costs and restrict our access to our oil and gas reserves.

Several proposals are before the United States Congress that, if implemented, would subject the process of hydraulic fracturing to regulation under the Safe Drinking Water Act. Hydraulic fracturing involves the injection of water, sand and chemicals under pressure into rock formations to stimulate natural gas production. The use of hydraulic fracturing is necessary to produce commercial quantities of crude oil and natural gas from many reservoirs including the Haynesville shale, Bossier shale, Eagle Ford shale, Cotton Valley and other tight natural gas reservoirs. At the direction of Congress, EPA is currently conducting an extensive, multi-year study into the potential effects of hydraulic fracturing on underground sources of drinking water, and the results of that study have the potential to impact the likelihood or scope of future legislation or regulation.

Although it is not possible at this time to predict the final outcome of any legislation regarding hydraulic fracturing, several states, including some in which we operate such as Arkansas, have adopted or proposed rules that would limit or regulate hydraulic fracturing, and/or require disclosure of chemicals used in hydraulic fracturing. These new state rules and any new federal restrictions on hydraulic fracturing that may be imposed in areas in which we conduct business, could significantly increase our operating, capital and compliance costs as well as delay or inhibit our ability to develop our oil and natural gas reserves.

Potential changes to US federal tax regulations, if passed, will have an adverse effect on us.

The United States Congress continues to consider imposing new taxes and repeal of many tax incentives and deductions that are currently used by independent oil and gas producers. Examples of changes being considered that would impact us are: elimination of the ability to fully deduct intangible drilling costs in the year incurred, repeal of the manufacturing tax deduction for oil and gas companies, increasing the geological and geophysical cost amortization period, and implementation of a fee on non-producing leases located on federal lands. If these proposals are enacted, our current income tax liability will increase, potentially significantly, which would have a negative impact on our cash flow from operating activities. A reduction in operating cash flow could require us to reduce our drilling activities. Since none of these proposals have yet to be included in new legislation, we do not know the ultimate impact they may have on our business.

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

We had \$513.4 million in debt as of December 31, 2010, and our ratio of total debt to total capitalization was approximately 32%.

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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 respective indentures governing our outstanding senior notes. 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.

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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 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;

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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.

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 often 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

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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 decline, 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, 2010, 50% of our total proved reserves were undeveloped and 15% were 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 natural gas at commercially acceptable prices, our profitability will decline.

Our ability to market oil and natural 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;

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changes in supply and demand; and
general economic conditions.

Our inability to respond appropriately to changes in these factors could negatively affect 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;

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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;
require reporting of significant releases, and annual reporting of the nature and quantity of emissions, discharges and other releases into the environment;
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.

In June 2009 the United States House of Representatives passed the American Clean Energy and Security Act of 2009. A similar bill, the Clean Energy Jobs and American Power Act, introduced in the Senate, has not passed. Both bills contain the basic feature of establishing a cap and trade system for restricting greenhouse gas emissions in the United States. Under such a system, certain sources of greenhouse gas emissions would be required to obtain greenhouse gas emission allowances corresponding to their annual emissions of greenhouse gases. The number of emission allowances issued each year would decline as necessary over time to meet overall emission reduction goals. As the number of greenhouse gas emission allowances declines each year, the cost or value of allowances is expected to escalate significantly. It appears that the prospects for a cap and trade system such as that proposed in these bills have dimmed significantly since the 2010 midterm elections; however, some form of GHG legislation remains possible, and the EPA is moving ahead with its efforts to regulate GHG emissions from certain sources by rule. The EPA has issued Subpart W of the Final Mandatory Reporting of Greenhouse Gases Rule, which required petroleum

and natural gas systems that emit 25,000 metric tons of CO₂e or more per year to begin collecting GHG emissions data under a new reporting system beginning on January 1, 2011 with the first annual report due March 31, 2012. We are required to report under these new regulations, and are implementing the required procedures to collect

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the required information. Beyond measuring and reporting, the EPA issued an Endangerment Finding under section 202(a) of the Clean Air Act, concluding greenhouse gas pollution threatens the public health and welfare of current and future generations. The EPA has adopted regulations that would require permits for and reductions in greenhouse gas emissions for certain facilities. Since all of our crude oil and natural gas production is in the United States, these laws or regulations that have been or may be adopted to restrict or reduce emissions of greenhouse gases could require us to incur substantial increased operating costs, and could have an adverse effect on demand for the crude oil and natural gas we produce.

In June 2010 the Bureau of Land Management issued a proposed oil and gas leasing reform. The proposal would require, among other things, a more detailed environmental review prior to leasing oil and natural gas resources on federal lands, increased public engagement in the development of Master Leasing Plans prior to leasing areas where intensive new oil and gas development is anticipated, and a comprehensive parcel review process with greater public involvement in the identification of key environmental resource values before a parcel is leased. New leases would incorporate adaptive management stipulations, requiring lessees to monitor and respond to observed environmental impacts, possibly through the implementation of expensive new control measures or curtailment of operations, potentially reducing profitability. The proposed policy could have the effect of reducing the amount of new federal lands made available for lease, increasing the competition for and cost of available parcels.

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. Future environmental laws and regulations, including proposed legislation regulating climate change, may negatively impact our industry. The costs of compliance with these requirements may have an adverse impact on our financial condition, results of operations and cash flows.

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USE OF PROCEEDS

The net proceeds from this offering, after deducting underwriting discounts and estimated expenses of the offering, will be approximately \$293.5 million. We intend to use the net proceeds from this offering to fund the pending tender offer and consent solicitation of the 2012 Notes as well as redeeming any such notes outstanding following the tender offer. Any remaining proceeds will be used to repay amounts borrowed under our bank credit facility. Funds repaid on our bank credit facility may be reborrowed for general corporate purposes.

As of February 28, 2011, the borrowing base under our bank credit facility was \$500.0 million. As of February 28, 2011, the total outstanding principal balance under our bank credit facility was \$100.0 million at a weighted average interest rate of 2.01%. Our bank credit facility matures on November 30, 2015.

The underwriters may, from time to time, engage in transactions with and perform services for us and our affiliates in the ordinary course of their business. In addition, the underwriters or affiliates of the underwriters are lenders under our bank credit facility and, accordingly, will receive a substantial portion of the proceeds from this offering. See Underwriting Other Relationships.

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Table of Contents**CAPITALIZATION**

The following table sets forth our consolidated cash and cash equivalents and our consolidated capitalization as of December 31, 2010 (1) on a historical basis and (2) on an as-adjusted basis to reflect this notes offering and the application of the estimated net proceeds therefrom as described under "Use of Proceeds", including the completion of the tender offer and consent solicitation by us of the 2012 Notes (assuming 100% acceptance of the tender offer and consent solicitation). This information should be read in conjunction with the consolidated financial statements and our "Management's Discussion and Analysis of Financial Condition and Results of Operations" incorporated by reference herein.

	As of December 31, 2010	
	Historical	As Adjusted
	<i>(In thousands)</i>	
Cash and cash equivalents	\$ 1,732	\$ 77,802
Total long-term debt:		
Revolving Credit Facility (1)	\$ 45,000	\$
67/8% Senior Notes due 2012	172,000	
83/8% Senior Notes due 2017 (2)	296,372	296,372
73/4% Senior Notes due 2019, offered hereby (3)		300,000
Total long-term debt	513,372	596,372
Stockholders' Equity:		
Common stock	23,853	23,853
Additional paid-in capital	454,499	454,499
Retained Earnings	557,849	557,849
Accumulated other comprehensive loss	32,330	32,330
Total stockholders' equity	1,068,531	1,068,531
Total capitalization	\$ 1,581,903	\$ 1,664,903

(1) As of February 28, 2011, the total outstanding principal balance under our bank credit facility was \$100.0 million. As of December 31, 2010, the total amount available for borrowing under our bank credit facility was \$455.0 million.

(2) The 83/8% Senior Notes due 2017 are net of original issue discount. The principal amount is \$300.0 million.

(3) Reflects the issuance of \$300.0 million principal amount of the notes offered hereby.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our ratios of earnings to fixed charges on a consolidated basis for the periods shown. You should read these ratios in connection with our consolidated financial statements, including the notes to those statements.

	Years Ended December 31,				
	2006	2007	2008	2009	2010
Ratio of earnings to fixed charges	5.2x	3.3x	4.4x		0.1x

The ratios were computed by dividing earnings by fixed charges. Earnings consist of income from continuing operations before income taxes, interest expense, and that portion of non-capitalized rental expense deemed to be the equivalent of interest, while fixed charges consists of interest expense, capitalized interest expense, preferred stock dividends, and that portion of non-capitalized rental expense deemed to be the equivalent of interest. For the year ended December 31, 2009, earnings were inadequate to cover fixed charges. The coverage deficiency was \$53.9 million.

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DESCRIPTION OF OTHER INDEBTEDNESS

As of February 28, 2011, the borrowing base under our bank credit facility was \$500.0 million. As of February 28, 2011, the total outstanding principal balance under our bank credit facility was \$100.0 million at a weighted average interest rate of 2.01%. Our bank credit facility matures on November 30, 2015.

Indebtedness under our bank credit facility is secured by substantially all of our and our subsidiaries' oil and gas properties. It is subject to borrowing base availability, which is redetermined semiannually based on estimates of the future net cash flows of our oil and natural gas properties. The borrowing base is 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 credit facility bear interest, based on the utilization of the borrowing base, at our option at either (1) LIBOR plus 1.75% to 2.75% or (2) the base rate (which is the higher of the administrative agent's prime rate, the federal funds rate plus 0.5% or 30 day LIBOR plus 1.0%) plus 0.75% to 1.75%. We pay a commitment fee of 0.5% on the unused borrowing base. The credit facility contains covenants that, among other things, restrict the payment of cash dividends in excess of \$50.0 million, limit the amount of consolidated debt that Comstock may incur and limit the Company's ability to make certain loans and investments. Financial covenants include the maintenance of a current ratio and maintenance of tangible net worth.

In addition, we have \$172.0 million of 2012 Notes outstanding and \$300.0 million of our 83/8% senior notes outstanding which mature on October 15, 2017. All such notes are our unsecured obligations and are guaranteed by all of our material subsidiaries. The subsidiary guarantors are 100% owned and all of the guarantees are full and conditional and joint and several. As of December 31, 2010, we had no material assets or operations which are independent of our subsidiaries. There are no restrictions on our ability to obtain funds from our subsidiaries through dividends or loans.

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DESCRIPTION OF THE NOTES

The notes will be issued pursuant to an indenture dated as of October 9, 2009, as supplemented by a supplemental indenture to be dated as of the closing date of this offering (the Indenture) by and among Comstock, as issuer, the Subsidiary Guarantors and The Bank of New York Mellon Trust Company, N.A., as trustee (the Trustee). The terms of the notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939. The Indenture is unlimited in aggregate principal amount, although the issuance of notes in this offering will be limited to \$300.0 million.

This Description of the Notes, together with the Description of Debt Securities included in the accompanying base prospectus, is intended to be a useful overview of the material provisions of the notes and the Indenture. Since this Description of the Notes and such Description of Debt Securities are only summaries, you should refer to the Indenture for a complete description of the obligations of the Company and your rights. This Description of the Notes supersedes the Description of Debt Securities in the accompanying base prospectus to the extent it is inconsistent with such Description of Debt Securities.

The registered holder of a note will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture. In this section, the words Comstock, we, us, or our refer only to Comstock Resources, Inc. and not to any of its subsidiaries.

General

\$300.0 million in aggregate principal amount of the notes will be issued on the closing date of this offering. Subject to compliance with the covenant described in Certain Covenants Limitation on Indebtedness and Disqualified Capital Stock, we may issue an unlimited amount of additional debt securities under the Indenture from time to time after this offering. We may create and issue additional debt securities with the same terms as the notes so that such additional debt securities would form a single series with the notes, and would be treated as such for all purposes of the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. The notes will mature on April 1, 2019. The notes will bear interest at 7.75% from March 14, 2011, or from the most recent interest payment date to which interest has been paid, payable semi-annually in cash on April 1 and October 1 of each year, commencing October 1, 2011, to the Persons in whose name the notes are registered in the note register at the close of business on March 15 or September 15 next preceding such interest payment date. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months.

Principal of, premium, if any, and interest on the notes will be payable at the office or agency of Comstock in New York City maintained for such purpose, and the notes may be surrendered for transfer or exchange at the corporate trust office of the Trustee. In addition, in the event the notes do not remain in book-entry form, interest may be paid, at the option of Comstock, by check mailed to the Holders of the notes at their respective addresses as shown on the note register, subject to the right of any Holder of notes in the principal amount of \$500,000 or more to request payment by wire transfer. No service charge will be made for any transfer, exchange or redemption of the notes, but Comstock may require payment of a sum sufficient to cover any tax or other governmental charge that may be payable in connection therewith. The notes will be issued only in registered form, without coupons, in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

The obligations of Comstock under the notes will be jointly and severally guaranteed by the Subsidiary Guarantors. See Subsidiary Guarantees of Notes.

Table of Contents**Redemption***Optional Redemption*

The notes will be redeemable at our option, in whole or in part, at any time on or after April 1, 2015, upon not less than 30 or more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, to the date of redemption (subject to the right of Holders of record on the relevant record date to receive interest due on an interest payment date that is on or prior to the date of redemption), if redeemed during the 12-month period beginning on April 1 of the years indicated below:

Year	Redemption Price
2015	103.875%
2016	101.938%
2017 and thereafter	100.000%

In the event that less than all of the notes are to be redeemed, the particular notes to be redeemed shall be selected not less than 30 nor more than 60 days prior to the date of redemption by the Trustee, from the outstanding notes not previously called for redemption, pro rata, by lot or by any other method the Trustee shall deem fair and appropriate (or in the case of notes in global form, the Trustee will select the notes for redemption based on DTC's method that most nearly approximates a pro rata selection), although no note of \$2,000 or less will be redeemed in part.

Notwithstanding the foregoing, prior to April 1, 2014 we may, at any time or from time to time, redeem up to 35% of the aggregate principal amount of notes originally issued at a redemption price of 107.750% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of redemption (subject to the right of Holders of record on the relevant record date to receive interest due on an interest payment date that is on or prior to the date of redemption), with the Net Cash Proceeds of one or more Public Equity Offerings, provided that at least 65% of the aggregate principal amount of notes originally issued remains outstanding immediately after such redemption (excluding notes held by us and our Subsidiaries) and that such redemption occurs within 120 days following the closing of any such Public Equity Offering.

Offers to Purchase

As described below, (i) upon the occurrence of a Change of Control, we will be obligated to make an offer to purchase all of the notes at a purchase price equal to 101% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date of purchase and (ii) upon certain sales or other dispositions of assets, Comstock may be obligated to make offers to purchase the notes with a portion of the Net Available Cash of such sales or other dispositions at a purchase price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date of purchase. See **Certain Covenants**, **Change of Control** and **Limitation on Asset Sales**.

Sinking Fund

There will be no sinking fund payments for the notes.

Ranking

The Indebtedness evidenced by the notes and the Subsidiary Guarantees will be unsecured and will rank pari passu in right of payment with all Senior Indebtedness of Comstock and the Subsidiary Guarantors, as the case may be, and senior in right of payment to all subordinated Indebtedness of Comstock and the Subsidiary Guarantors, as the case may be. The notes, however, will be effectively subordinated to secured

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Indebtedness of Comstock and its Subsidiaries to the extent of the value of the assets securing such Indebtedness, including Indebtedness under the Bank Credit Agreement, which is secured by a lien on substantially all of the assets of Comstock (including assets of the Subsidiary Guarantors).

As of December 31, 2010, on an as adjusted basis as described under Capitalization, Comstock and its Restricted Subsidiaries would have had \$596.4 million in principal amount of Senior Indebtedness outstanding, comprised of the notes and the 83/8% Senior Notes due 2017, and no Indebtedness contractually subordinated to the notes. Subject to certain limitations, Comstock and its Subsidiaries may incur additional Indebtedness in the future.

A substantial portion of Comstock's operations is conducted through its Subsidiaries. Claims of creditors of such Subsidiaries that are not Subsidiary Guarantors, including trade creditors and creditors holding Indebtedness or guarantees issued by such Subsidiaries, and claims of preferred stockholders of such Subsidiaries will have priority with respect to the assets and earnings of such Subsidiaries over the claims of Comstock's creditors, including Holders of the notes. Accordingly, the notes will be effectively subordinated to creditors (including trade creditors) and preferred stockholders, if any, of Comstock's Subsidiaries that are not Subsidiary Guarantors.

Although the Indenture limits the incurrence of Indebtedness and Disqualified Capital Stock of the Restricted Subsidiaries and the issuance or sale of Preferred Stock of the Restricted Subsidiaries, such limitations are subject to a number of significant qualifications. In addition, the Indenture does not impose any limitations on the incurrence by the Restricted Subsidiaries of liabilities that are not considered Indebtedness, Disqualified Capital Stock or Preferred Stock under the Indenture. Please read Certain Covenants Limitation on Indebtedness and Disqualified Capital Stock and Limitation on Liens. Moreover, the Indenture does not impose any limitation on the incurrence by any Unrestricted Subsidiary of Indebtedness or Disqualified Capital Stock, or the issuance or sale of Preferred Stock of any Unrestricted Subsidiary.

Subsidiary Guarantees of Notes

Each Subsidiary Guarantor will unconditionally guarantee, jointly and severally, to each Holder and the Trustee, the full and prompt performance of Comstock's obligations under the Indenture and the notes, including the payment of principal of, premium, if any, and interest on the notes pursuant to its Subsidiary Guarantee. The initial Subsidiary Guarantors are currently all of Comstock's operating subsidiaries. In addition to the initial Subsidiary Guarantors, Comstock is obligated under the Indenture to cause each Restricted Subsidiary that guarantees the payment of, assumes or in any other manner becomes liable (whether directly or indirectly) with respect to any Indebtedness of Comstock or any other Subsidiary Guarantor, including, without limitation, Indebtedness under the Bank Credit Agreement, to execute and deliver a supplement to the Indenture pursuant to which such Restricted Subsidiary will guarantee the payment of the notes on the same terms and conditions as the Subsidiary Guarantees by the initial Subsidiary Guarantors. Please read Certain Covenants Future Subsidiary Guarantees.

The obligations of each Subsidiary Guarantor will be limited to the maximum amount as will result in the obligations of such Subsidiary Guarantor under its Subsidiary Guarantee not constituting a fraudulent conveyance or fraudulent transfer under applicable law. Each Subsidiary Guarantor that makes a payment or distribution under a Subsidiary Guarantee shall be entitled to a contribution from each other Subsidiary Guarantor in a pro rata amount based on the Adjusted Net Assets of each Subsidiary Guarantor.

Each Subsidiary Guarantor may consolidate with or merge into or sell or otherwise dispose of all or substantially all of its properties and assets to Comstock or another Subsidiary Guarantor without limitation, except to the extent any such transaction is subject to the Merger, Consolidation and Sale of Assets covenant of the Indenture. Each Subsidiary Guarantor may consolidate with or merge into or sell all or substantially all of its properties and assets to a Person other than Comstock or another Subsidiary Guarantor (whether or not affiliated with the Subsidiary Guarantor),

provided that (i) if the surviving Person is not the Subsidiary

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Guarantor, the surviving Person agrees to assume such Subsidiary Guarantor's Subsidiary Guarantee and all its obligations pursuant to the Indenture (except to the extent the following paragraph would result in the release of such Subsidiary Guarantee) and (ii) such transaction does not (a) violate any of the covenants described below under Certain Covenants or (b) result in a Default or Event of Default immediately thereafter that is continuing.

Upon the sale or other disposition (by merger or otherwise) of a Subsidiary Guarantor (or all or substantially all of its properties and assets) to a Person other than Comstock or another Subsidiary Guarantor and pursuant to a transaction that is otherwise in compliance with the Indenture (including as described in the foregoing paragraph), such Subsidiary Guarantor shall be deemed released from its Subsidiary Guarantee and the related obligations set forth in the Indenture; provided, however, that any such release shall occur only to the extent that all obligations of such Subsidiary Guarantor under all of its guarantees of, and under all of its pledges of assets or other security interests which secure, other Indebtedness of Comstock or any Restricted Subsidiary shall also be released upon such sale or other disposition.

In addition, in the event that any Subsidiary Guarantor ceases to guarantee payment of, or in any other manner to remain liable (whether directly or indirectly) with respect to any and all other Indebtedness of Comstock or any other Restricted Subsidiary of Comstock, including, without limitation, Indebtedness under the Bank Credit Agreement, such Subsidiary Guarantor shall also be released from its Subsidiary Guarantee and the related obligations set forth in the Indenture for so long as it remains not liable with respect to all such other Indebtedness.

Each Subsidiary Guarantor that is designated as an Unrestricted Subsidiary in accordance with the Indenture shall be released from its Subsidiary Guarantee and related obligations set forth in the Indenture for so long as it remains an Unrestricted Subsidiary.

Covenant Suspension

During any period that the notes have a rating equal to or higher than BBB- (or the equivalent) by S&P and Baa3 (or the equivalent) by Moody's (Investment Grade Ratings) and no Default or Event of Default has occurred and is continuing, Comstock and the Restricted Subsidiaries will not be subject to the following covenants (collectively, the Suspended Covenants):

Limitation on Indebtedness and Disqualified Capital Stock;

Limitation on Restricted Payments;

Limitation on Issuances and Sales of Preferred Stock of Restricted Subsidiaries;

Limitation on Transactions with Affiliates;

Limitation on Asset Sales;

Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries; and

clause (3) of Merger, Consolidation and Sale of Assets

In the event that Comstock and the Restricted Subsidiaries are not subject to the Suspended Covenants for any period of time as a result of the preceding paragraph and either S&P or Moody's subsequently withdraws its rating or downgrades its rating of the notes below the applicable Investment Grade Rating, or a Default or Event of Default occurs and is continuing, then Comstock and its Restricted Subsidiaries will thereafter again be subject to the

Suspended Covenants, and compliance with the Suspended

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Covenants with respect to Restricted Payments made after the time of such withdrawal, downgrade, Default or Event of Default will be calculated in accordance with the covenant described under **Certain Covenants Limitation on Restricted Payments** as though such covenant had been in effect during the entire period of time from the Issue Date.

During any period when the Suspended Covenants are suspended, the Board of Directors of Comstock may not designate any of Comstock's Subsidiaries as Unrestricted Subsidiaries pursuant to the Indenture.

Certain Covenants

Limitation on Indebtedness and Disqualified Capital Stock

Comstock will not, and will not permit any of its Restricted Subsidiaries to, create, incur, issue, assume, guarantee or in any manner become directly or indirectly liable for the payment of (collectively, **incur**) any Indebtedness (including any Acquired Indebtedness), and Comstock will not, and will not permit any of its Restricted Subsidiaries to, issue any Disqualified Capital Stock (except for the issuance by Comstock of Disqualified Capital Stock (A) which is redeemable at Comstock's option in cash or Qualified Capital Stock and (B) the dividends on which are payable at Comstock's option in cash or Qualified Capital Stock); provided however, that Comstock and its Restricted Subsidiaries that are Subsidiary Guarantors may incur Indebtedness or issue shares of Disqualified Capital Stock if (i) at the time of such event and after giving effect thereto on a pro forma basis the Consolidated Fixed Charge Coverage Ratio for the four full quarters immediately preceding such event, taken as one period, would have been equal to or greater than 2.25 to 1.0 and (ii) no Default or Event of Default shall have occurred and be continuing at the time such additional Indebtedness is incurred or such Disqualified Capital Stock is issued or would occur as a consequence of the incurrence of the additional Indebtedness or the issuance of the Disqualified Capital Stock.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, **Permitted Indebtedness**):

- (1) Priority Credit Facility Debt, in an aggregate amount at any one time outstanding not to exceed the greater of (a) the borrowing base under the Bank Credit Agreement at such time less the sum of all repayments of principal of Priority Credit Facility Debt made pursuant to **Limitation on Asset Sales** and (b) 25% of Adjusted Consolidated Net Tangible Assets; provided, however, that Indebtedness and Disqualified Capital Stock of Restricted Subsidiaries that are not Subsidiary Guarantors shall not at any time constitute more than 50% of all Priority Credit Facility Debt otherwise permitted under this clause (1);
- (2) Indebtedness under the notes;
- (3) Indebtedness outstanding or in effect on the Issue Date (and not repaid or defeased with the proceeds of the offering of the notes);
- (4) obligations pursuant to Interest Rate Protection Obligations, but only to the extent such obligations do not exceed 105% of the aggregate principal amount of the Indebtedness covered by such Interest Rate Protection Obligations; obligations under currency exchange contracts entered into in the ordinary course of business; hedging arrangements entered into in the ordinary course of business for the purpose of protecting production, purchases and resales against fluctuations in oil or natural gas prices, and any guarantee of any of the foregoing;
- (5) the Subsidiary Guarantees of the notes (and any assumption of the obligations guaranteed thereby);

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- (6) the incurrence by Comstock or any of its Restricted Subsidiaries of intercompany Indebtedness between or among Comstock and any of its Restricted Subsidiaries; provided, however, that:
 - (a) if the Company is the obligor on such Indebtedness and a Subsidiary Guarantor is not the obligee, such Indebtedness must be expressly subordinated to the prior payment in full in cash of all Obligations with respect to the notes, or if a Subsidiary Guarantor is the obligor on such Indebtedness and neither Comstock nor another Subsidiary Guarantor is the obligee, such Indebtedness must be expressly subordinated to the prior payment in full in cash of all Obligations with respect to the Subsidiary Guarantee of such Subsidiary Guarantor; and
 - (b) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than Comstock or a Restricted Subsidiary of Comstock and (ii) any sale or other transfer of any such Indebtedness to a Person that is neither Comstock nor a Restricted Subsidiary of Comstock will be deemed, in each case, to constitute an incurrence of such Indebtedness by Comstock or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);
- (7) Permitted Refinancing Indebtedness and any guarantee thereof;
- (8) Non-Recourse Indebtedness;
- (9) in-kind obligations relating to net oil or gas balancing positions arising in the ordinary course of business;
- (10) Indebtedness in respect of bid, performance or surety bonds issued for the account of Comstock or any Restricted Subsidiary in the ordinary course of business, including guaranties and letters of credit supporting such bid, performance or surety obligations (in each case other than for an obligation for money borrowed); and
- (11) any additional Indebtedness in an aggregate principal amount not in excess of \$75.0 million at any one time outstanding and any guarantee thereof.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of one or more of the categories of Permitted Indebtedness described in clauses (1) through (11) described above or is entitled to be incurred pursuant to the first paragraph of this covenant, Comstock may, in its sole discretion, classify such item of Indebtedness in any manner that complies with this covenant and such item of Indebtedness will be treated as having been incurred pursuant to only one of such clauses of the definition of Permitted Indebtedness or the proviso of the foregoing sentence and an item of Indebtedness may be divided and classified in more than one of the types of Indebtedness permitted hereunder; provided that all Indebtedness outstanding on the Issue Date under the Credit Agreement shall be deemed incurred under clause (1) of the second paragraph of this covenant and not under the first paragraph or clause (3) of the second paragraph.

The accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Stock in the form of additional shares of the same class of Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Stock for purposes of this covenant. The amount of any Indebtedness outstanding as of any date shall be (i) the accreted value thereof in the case of any Indebtedness issued with original issue discount and (ii) the principal amount or liquidation preference thereof, together with any interest

thereon that is more than 30 days past due, in the case of any other Indebtedness.

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For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; provided that if such Indebtedness is incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced (plus all accrued interest on the Indebtedness being refinanced and the amount of all expenses and premiums incurred in connection therewith).

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that Comstock or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness incurred to refinance other Indebtedness, if incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Permitted Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Limitation on Restricted Payments

Comstock will not, and will not permit any Restricted Subsidiary to, directly or indirectly:

- (1) declare or pay any dividend on, or make any other distribution to holders of, any shares of Capital Stock of Comstock or any Restricted Subsidiary (other than dividends or distributions payable solely in shares of Qualified Capital Stock of Comstock or in options, warrants or other rights to purchase Qualified Capital Stock of Comstock);
- (2) purchase, redeem or otherwise acquire or retire for value any Capital Stock of Comstock or any Affiliate thereof (other than any Wholly Owned Restricted Subsidiary of Comstock) or any options, warrants or other rights to acquire such Capital Stock (other than the purchase, redemption, acquisition or retirement of any Disqualified Capital Stock of Comstock solely in shares of Qualified Capital Stock of Comstock);
- (3) make any principal payment on or repurchase, redeem, defease or otherwise acquire or retire for value, prior to any scheduled principal payment, scheduled sinking fund payment or maturity, any Subordinated Indebtedness (excluding any intercompany Indebtedness between or among Comstock and any of its Restricted Subsidiaries), except in any case out of the net cash proceeds of Permitted Refinancing Indebtedness; or
- (4) make any Restricted Investment;

(such payments or other actions described in clauses (1) through (4) above being collectively referred to as Restricted Payments), unless at the time of and after giving effect to the proposed Restricted Payment:

- (1) no Default or Event of Default shall have occurred and be continuing;
- (2) Comstock could incur \$1.00 of additional Indebtedness in accordance with the Fixed Charge Coverage Ratio test set forth in the first paragraph of the Limitation on Indebtedness and Disqualified Capital Stock covenant; and

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- (3) the aggregate amount of all Restricted Payments declared or made after January 1, 2004 shall not exceed the sum (without duplication) of the following (the Restricted Payments Basket):
- (a) 50% of the Consolidated Net Income of Comstock accrued on a cumulative basis during the period beginning on January 1, 2004 and ending on the last day of Comstock's last fiscal quarter ending prior to the date of such proposed Restricted Payment (or, if such Consolidated Net Income is a loss, minus 100% of such loss); plus
 - (b) the aggregate Net Cash Proceeds, or the Fair Market Value of assets and property other than cash, received after January 1, 2004 by Comstock from the issuance or sale (other than to any of its Restricted Subsidiaries) of shares of Qualified Capital Stock of Comstock or any options, warrants or rights to purchase such shares of Qualified Capital Stock of Comstock; plus
 - (c) the aggregate Net Cash Proceeds, or the Fair Market Value of assets and property other than cash, received after January 1, 2004 by Comstock (other than from any of its Restricted Subsidiaries) upon the exercise of any options, warrants or rights to purchase shares of Qualified Capital Stock of Comstock; plus
 - (d) the aggregate Net Cash Proceeds received after January 1, 2004 by Comstock from the issuance or sale (other than to any of its Restricted Subsidiaries) of Indebtedness or shares of Disqualified Capital Stock that have been converted into or exchanged for Qualified Capital Stock of Comstock, together with the aggregate cash received by Comstock at the time of such conversion or exchange; plus
 - (e) to the extent not otherwise included in Consolidated Net Income, the net reduction in Investments in Unrestricted Subsidiaries resulting from dividends, repayments of loans or advances, or other transfers of assets, in each case to Comstock or a Restricted Subsidiary after January 1, 2004 from any Unrestricted Subsidiary or from the redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary (valued in each case as provided in the definition of Investment), not to exceed in the case of any Unrestricted Subsidiary the total amount of Investments (other than Permitted Investments) in such Unrestricted Subsidiary made by Comstock and its Restricted Subsidiaries in such Unrestricted Subsidiary after January 1, 2004.

The amount of the Restricted Payments Basket as of December 31, 2010 was approximately \$270.2 million. Notwithstanding the preceding provisions, Comstock and its Restricted Subsidiaries may take the following actions so long as (in the case of clauses (3), (4), (5) and (7) below) no Default or Event of Default shall have occurred and be continuing:

- (1) the payment of any dividend on any Capital Stock of Comstock within 60 days after the date of declaration thereof, if at such declaration date such declaration complied with the provisions of the preceding paragraph (and such payment shall be deemed to have been paid on such date of declaration for purposes of any calculation required by the provisions of the preceding paragraph);
- (2) the payment of any dividend payable from a Restricted Subsidiary to Comstock or any other Restricted Subsidiary of Comstock;
- (3) the repurchase, redemption or other acquisition or retirement of any shares of any class of Capital Stock of Comstock or any Restricted Subsidiary, in exchange for, or out of the aggregate Net Cash Proceeds from, a substantially concurrent issuance and sale (other than to a Restricted Subsidiary) of shares of

Qualified Capital Stock of Comstock;

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- (4) the purchase, redemption, repayment, defeasance or other acquisition or retirement for value of any Subordinated Indebtedness in exchange for, or out of the aggregate Net Cash Proceeds from, a substantially concurrent issuance and sale (other than to a Restricted Subsidiary) of shares of Qualified Capital Stock of Comstock;
- (5) the purchase, redemption, repayment, defeasance or other acquisition or retirement for value of Subordinated Indebtedness (other than Disqualified Capital Stock) in exchange for, or out of the aggregate net cash proceeds of, a substantially concurrent incurrence (other than to a Restricted Subsidiary) of Subordinated Indebtedness of Comstock so long as (a) the principal amount of such new Indebtedness does not exceed the principal amount (or, if such Subordinated Indebtedness being refinanced provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration thereof, such lesser amount as of the date of determination) of the Subordinated Indebtedness being so purchased, redeemed, repaid, defeased, acquired or retired, plus the amount of any premium required to be paid in connection with such refinancing pursuant to the terms of the Indebtedness refinanced or the amount of any premium reasonably determined by Comstock as necessary to accomplish such refinancing, plus the amount of expenses of Comstock incurred in connection with such refinancing, (b) such new Indebtedness is subordinated to the notes at least to the same extent as such Subordinated Indebtedness so purchased, redeemed, repaid, defeased, acquired or retired, and (c) such new Indebtedness has an Average Life to Stated Maturity that is longer than the Average Life to Stated Maturity of the notes and such new Indebtedness has a Stated Maturity for its final scheduled principal payment that is at least 91 days later than the Stated Maturity for the final scheduled principal payment of the notes;
- (6) loans made to officers, directors or employees of Comstock or any Restricted Subsidiary approved by the Board of Directors in an aggregate amount not to exceed \$1.0 million outstanding at any one time, the proceeds of which are used solely (a) to purchase common stock of Comstock in connection with a restricted stock or employee stock purchase plan, or to exercise stock options received pursuant to an employee or director stock option plan or other incentive plan, in a principal amount not to exceed the exercise price of such stock options, or (b) to refinance loans, together with accrued interest thereon, made pursuant to item (a) of this clause (6); and
- (7) other Restricted Payments in an aggregate amount not to exceed \$10.0 million.

The actions described in clauses (1), (3), (4) and (6) above shall be Restricted Payments that shall be permitted to be made in accordance with the preceding paragraph but shall reduce the amount that would otherwise be available for Restricted Payments under clause (3) of the second preceding paragraph (provided that any dividend paid pursuant to clause (1) above shall reduce the amount that would otherwise be available under clause (3) of the second preceding paragraph when declared, but not also when subsequently paid pursuant to such clause (1)), and the actions described in clauses (2), (5) and (7) above shall be permitted to be taken in accordance with this paragraph and shall not reduce the amount that would otherwise be available for Restricted Payments under clause (3) of the second preceding paragraph.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment.

Limitation on Issuances and Sales of Preferred Stock of Restricted Subsidiaries

Comstock (1) will not permit any Restricted Subsidiary to issue or sell any Preferred Stock to any Person other than Comstock or one of its Wholly Owned Restricted Subsidiaries and (2) will not permit any Person other than Comstock or one of its Wholly Owned Restricted Subsidiaries to own any Preferred Stock

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of any Restricted Subsidiary, except, in each case, for (a) the Preferred Stock of a Restricted Subsidiary owned by a Person at the time such Restricted Subsidiary became a Restricted Subsidiary, or (b) a sale of Preferred Stock in connection with the sale of all the Capital Stock of a Restricted Subsidiary owned by Comstock or its Subsidiaries effected in accordance with the provisions of the Indenture described under Limitation on Asset Sales.

Limitation on Transactions with Affiliates

Comstock will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into or suffer to exist any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets or property or the rendering of any services) with, or for the benefit of, any Affiliate of Comstock (other than Comstock or a Wholly Owned Restricted Subsidiary) (each, an Affiliate Transaction), unless

- (1) such transaction or series of related transactions is on terms that are no less favorable to Comstock or such Restricted Subsidiary, as the case may be, than those that would be available in a comparable arm's length transaction with unrelated third parties; and
- (2) Comstock delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$10.0 million but no greater than \$25.0 million, an Officers Certificate certifying that such Affiliate Transaction or series of Affiliate Transactions complies with this covenant; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$25.0 million, an Officers Certificate certifying that such Affiliate Transaction or series of Affiliate Transactions complies with this covenant and that such Affiliate Transaction or series of Affiliate Transactions has been approved by a majority of the Disinterested Directors of Comstock.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

- (1) loans or advances to officers, directors and employees of Comstock or any Restricted Subsidiary made in the ordinary course of business in an aggregate amount not to exceed \$1.0 million outstanding at any one time;
- (2) indemnities of officers, directors, employees and other agents of Comstock or any Restricted Subsidiary permitted by corporate charter or other organizational document, bylaw or statutory provisions;
- (3) the payment of reasonable and customary fees to directors of Comstock or any of its Restricted Subsidiaries who are not employees of Comstock or any Affiliate;
- (4) Comstock's employee compensation and other benefit arrangements;
- (5) transactions exclusively between or among Comstock and any of the Restricted Subsidiaries or exclusively between or among such Restricted Subsidiaries, provided such transactions are not otherwise prohibited by the Indenture; and
- (6)

any Restricted Payment permitted to be paid pursuant to the terms of the Indenture described under
Limitation on Restricted Payments.

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Limitation on Liens

Comstock will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, incur, assume, affirm or suffer to exist or become effective any Lien of any kind, except for Permitted Liens, upon any of their respective property or assets, whether now owned or acquired after the Issue Date, or any income, profits or proceeds therefrom, or assign or convey any right to receive income thereon, unless (1) in the case of any Lien securing Subordinated Indebtedness, the notes are secured by a lien on such property, assets or proceeds that is senior in priority to such Lien and (2) in the case of any other Lien, the notes are directly secured equally and ratably with the obligation or liability secured by such Lien. The incurrence of additional secured Indebtedness by Comstock and its Restricted Subsidiaries is subject to further limitations on the incurrence of Indebtedness as described under

Limitation on Indebtedness and Disqualified Capital Stock.

Limitation on Asset Sales

Comstock will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale unless (i) Comstock or such Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the Fair Market Value of the assets and property subject to such Asset Sale and (ii) all of the consideration paid to Comstock or such Restricted Subsidiary in connection with such Asset Sale is in the form of cash, Cash Equivalents, Liquid Securities, Exchanged Properties or the assumption by the purchaser of liabilities of Comstock (other than liabilities of Comstock that are by their terms subordinated to the notes) or liabilities of any Subsidiary Guarantor that made such Asset Sale (other than liabilities of a Subsidiary Guarantor that are by their terms subordinated to such Subsidiary Guarantor's Subsidiary Guarantee), in each case as a result of which Comstock and its remaining Restricted Subsidiaries are no longer liable for such liabilities (Permitted Consideration); provided, however, that Comstock and its Restricted Subsidiaries shall be permitted to receive assets and property other than Permitted Consideration, so long as the aggregate Fair Market Value of all such assets and property other than Permitted Consideration received from Asset Sales since the 2009 Notes Issue Date and held by Comstock or any Restricted Subsidiary at any one time shall not exceed 10% of Adjusted Consolidated Net Tangible Assets.

The Net Available Cash from Asset Sales by Comstock or a Restricted Subsidiary may be applied by Comstock or such Restricted Subsidiary, to the extent Comstock or such Restricted Subsidiary elects (or is required by the terms of any Senior Indebtedness of Comstock or a Restricted Subsidiary), to

prepay, repay, redeem or purchase Senior Indebtedness of Comstock or a Restricted Subsidiary; or

reinvest in Additional Assets (including by means of an Investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by Comstock or another Restricted Subsidiary).

Any Net Available Cash from an Asset Sale not applied in accordance with the preceding paragraph within 365 days from the date of such Asset Sale shall constitute Excess Proceeds. When the aggregate amount of Excess Proceeds exceeds \$10.0 million, Comstock will be required to make an offer (the Prepayment Offer) to all Holders of notes and all Holders of other Indebtedness that is *pari passu* with the notes containing provisions similar to those set forth in the Indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of notes and such other *pari passu* Indebtedness that may be purchased out of the Excess Proceeds. The offer price in any Prepayment Offer will be equal to 100% of principal amount plus accrued and unpaid interest, if any, to the Purchase Date (subject to the right of Holders of record on the relevant record date to receive interest due on an interest payment date that is on or prior to the Purchase Date), and will be payable in cash. If the aggregate principal amount of notes tendered by Holders thereof exceeds the amount of available Excess Proceeds allocated for repurchases of notes pursuant to the Prepayment Offer for notes, then such Excess Proceeds will

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be allocated pro rata according to the principal amount of the notes tendered and the Trustee will select the notes to be purchased in accordance with the Indenture. To the extent that any portion of the amount of Excess Proceeds remains after compliance with the second sentence of this paragraph and provided that all Holders of notes have been given the opportunity to tender their notes for purchase as described in the following paragraph in accordance with the Indenture, Comstock and its Restricted Subsidiaries may use such remaining amount for purposes permitted by the Indenture and the amount of Excess Proceeds will be reset to zero.

Within 30 days after the 365th day following the date of an Asset Sale, Comstock shall, if it is obligated to make an offer to purchase the notes pursuant to the preceding paragraph, send a written Prepayment Offer notice, by first-class mail, to the Holders of the notes (the Prepayment Offer Notice), accompanied by such information regarding Comstock and its Subsidiaries as Comstock believes will enable such Holders of the notes to make an informed decision with respect to the Prepayment Offer. The Prepayment Offer Notice will state, among other things:

that Comstock is offering to purchase notes pursuant to the provisions of the Indenture;

that any note (or any portion thereof) accepted for payment (and duly paid on the Purchase Date) pursuant to the Prepayment Offer shall cease to accrue interest on the Purchase Date;

that any notes (or portions thereof) not properly tendered will continue to accrue interest;

the purchase price and purchase date, which shall be, subject to any contrary requirements of applicable law, no less than 30 days nor more than 60 days after the date the Prepayment Offer Notice is mailed (the Purchase Date);

the aggregate principal amount of notes to be purchased;

a description of the procedure which Holders of notes must follow in order to tender their notes and the procedures that Holders of notes must follow in order to withdraw an election to tender their notes for payment; and

all other instructions and materials necessary to enable Holders to tender notes pursuant to the Prepayment Offer.

Comstock will comply, to the extent applicable, with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws or regulations thereunder to the extent such laws and regulations are applicable in connection with the purchase of notes as described above. To the extent that the provisions of any securities laws or regulations conflict with the provisions relating to the Prepayment Offer, Comstock will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations described above by virtue thereof.

Future Subsidiary Guarantees

If any Restricted Subsidiary that is not already a Subsidiary Guarantor has outstanding or guarantees any other Indebtedness of Comstock or a Subsidiary Guarantor, then in either case that Subsidiary will become a Subsidiary Guarantor by executing a supplemental indenture and delivering it to the Trustee within 20 business days of the date on which it incurred or guaranteed such Indebtedness, as the case may be; provided, however, that the foregoing shall not apply to Subsidiaries of Comstock that have properly been designated as Unrestricted Subsidiaries in accordance with the Indenture for so long as they continue to constitute Unrestricted Subsidiaries.

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Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries

Comstock will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or suffer to exist or allow to become effective any consensual encumbrance or restriction of any kind on the ability of any Restricted Subsidiary:

to pay dividends, in cash or otherwise, or make any other distributions on its Capital Stock, or make payments on any Indebtedness owed, to Comstock or any other Restricted Subsidiary;

to make loans or advances to Comstock or any other Restricted Subsidiary; or

to transfer any of its property or assets to Comstock or any other Restricted Subsidiary

(any such restrictions being collectively referred to herein as a *Payment Restriction*). However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

- (1) customary provisions restricting subletting or assignment of any lease governing a leasehold interest of Comstock or any Restricted Subsidiary, or customary restrictions in licenses relating to the property covered thereby and entered into in the ordinary course of business;
- (2) any instrument governing Indebtedness of a Person acquired by Comstock or any Restricted Subsidiary at the time of such acquisition, which encumbrance or restriction is not applicable to any other Person, other than the Person, or the property or assets of the Person, so acquired, provided that such Indebtedness was not incurred in anticipation of such acquisition;
- (3) any instrument governing Indebtedness or Disqualified Capital Stock of a Restricted Subsidiary that is not a Subsidiary Guarantor, provided that (a) such Indebtedness or Disqualified Capital Stock is permitted under the covenant described in *Limitation on Indebtedness and Disqualified Capital Stock* and (b) the terms and conditions of any Payment Restrictions thereunder are not materially more restrictive than the Payment Restrictions contained in the Bank Credit Agreement and the Indenture as in effect on the Issue Date;
- (4) the Bank Credit Agreement as in effect on the Issue Date or any agreement that amends, modifies, supplements, restates, extends, renews, refinances or replaces the Bank Credit Agreement, provided that the terms and conditions of any Payment Restrictions thereunder are not materially more restrictive than the Payment Restrictions contained in the Bank Credit Agreement as in effect on the Issue Date;
- (5) the Indenture, the notes and the Subsidiary Guarantees; or
- (6) the indenture governing Comstock's existing 67/8% Senior Notes due 2012, 83/8% Senior Notes due 2017 and any subsidiary guarantees thereof, in each case as in effect on the Issue Date.

Limitation on Sale and Leaseback Transactions

Comstock will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale/ Leaseback Transaction unless (1) Comstock or such Restricted Subsidiary, as the case may be, would be able to incur Indebtedness in an amount equal to the Attributable Indebtedness with respect to such Sale/ Leaseback Transaction or (2) Comstock or such Restricted Subsidiary receives proceeds from such Sale/ Leaseback Transaction at least equal to

the Fair Market Value thereof and such proceeds are applied in the same manner and to the same extent as Net Available Cash and Excess Proceeds from an Asset Sale.

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Change of Control

Upon the occurrence of a Change of Control, Comstock shall be obligated to make an offer to purchase all of the then outstanding notes (a Change of Control Offer), and shall purchase, on a business day (the Change of Control Purchase Date) not more than 60 nor less than 30 days following such Change of Control, all of the then outstanding notes validly tendered pursuant to such Change of Control Offer, at a purchase price (the Change of Control Purchase Price) equal to 101% of the principal amount thereof plus accrued and unpaid interest to the Change of Control Purchase Date (subject to the right of Holders of record on the relevant record date to receive interest due on an interest payment date that is on or prior to the Change of Control Purchase Date). The Change of Control Offer is required to remain open for at least 20 business days and until the close of business on the fifth business day prior to the Change of Control Purchase Date.

In order to effect a Change of Control Offer, Comstock shall, not later than the 30th day after the occurrence of a Change of Control, give to the Trustee and each Holder a notice of the Change of Control Offer, which notice shall govern the terms of the Change of Control Offer and shall state, among other things, the procedures that Holders must follow to accept the Change of Control Offer.

The Bank Credit Agreement contains, and any future credit agreements or other agreements relating to Senior Indebtedness or other obligations of Comstock may contain, prohibitions or restrictions on Comstock's ability to effect a Change of Control Offer. In the event a Change of Control occurs at a time when such prohibitions or restrictions are in effect, Comstock could seek the consent of its lenders to the repurchase of notes or could attempt to refinance the borrowings or renegotiate the agreements that contain such prohibitions. If Comstock does not obtain such a consent or repay such borrowings or change such agreements, Comstock will be effectively prohibited from repurchasing notes. Failure by Comstock to purchase the notes when required would result in an Event of Default. See

Events of Default. There can be no assurance that Comstock would have adequate resources to repay or refinance all Indebtedness and other obligations owing under the Bank Credit Agreement and such other agreements and to fund the purchase of the notes upon a Change of Control.

Comstock will not be required to make a Change of Control Offer upon a Change of Control if another Person makes the Change of Control Offer at the same purchase price, at the same times and otherwise in substantial compliance with the requirements applicable to a Change of Control Offer to be made by Comstock and purchases all notes validly tendered and not withdrawn under such Change of Control Offer.

If holders of not less than 90% in aggregate principal amount of the outstanding notes validly tender and do not withdraw such notes in a Change of Control Offer and Comstock, or any third party making a Change of Control Offer in lieu of Comstock as described above, purchases all of the notes validly tendered and not withdrawn by such holders, Comstock will have the right, upon not less than 30 nor more than 60 days' prior notice, given not more than 30 days following such purchase pursuant to the Change of Control Offer described above, to redeem all notes that remain outstanding following such purchase at a redemption price in cash equal to the applicable Change of Control Purchase Price plus, to the extent not included in the Change of Control Purchase Price, accrued and unpaid interest, if any, to the date of redemption.

The definition of Change of Control includes a phrase relating to the disposition of all or substantially all of the properties and assets of Comstock and its Restricted Subsidiaries, taken as a whole. Although there is a developing body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of the notes to require Comstock to purchase such notes as a result of a disposition of less than all of the properties and assets of Comstock and its Restricted Subsidiaries, taken as a whole, to another Person may be uncertain.

Comstock intends to comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder, if applicable, in the event that a Change of Control occurs and Comstock is required to purchase notes as described above. The existence of a Holder's right to require, subject to certain

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conditions, Comstock to repurchase its notes upon a Change of Control may deter a third party from acquiring Comstock in a transaction that constitutes, or results in, a Change of Control.

Reports

The Indenture will provide that, whether or not Comstock is subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act, to the extent not prohibited by the Exchange Act, Comstock will file with the Commission, and make available to the Trustee and the holders of the notes without cost to any holder, the annual reports and the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may by rules and regulations prescribe) that are specified in Sections 13 and 15(d) of the Exchange Act and applicable to a U.S. corporation within the time periods specified therein with respect to an accelerated filer. In the event that Comstock is not permitted to file such reports, documents and information with the Commission pursuant to the Exchange Act, Comstock will nevertheless make available such Exchange Act information to the Trustee and the holders of the notes without cost to any holder as if Comstock were subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act within the time periods specified therein with respect to a non-accelerated filer.

If Comstock has designated any of its Subsidiaries as Unrestricted Subsidiaries, then, to the extent material, the quarterly and annual financial information required by the preceding paragraph will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, of the financial condition and results of operations of Comstock and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of Comstock.

The availability of the foregoing materials on the Commission's website or on Comstock's website shall be deemed to satisfy the foregoing delivery obligations.

Future Designation of Restricted and Unrestricted Subsidiaries

The foregoing covenants (including calculation of financial ratios and the determination of limitations on the incurrence of Indebtedness and Liens) may be affected by the designation by Comstock of any existing or future Subsidiary of Comstock as an Unrestricted Subsidiary. The definition of Unrestricted Subsidiary set forth under the caption Certain Definitions describes the circumstances under which a Subsidiary of Comstock may be designated as an Unrestricted Subsidiary by the Board of Directors of Comstock.

Merger, Consolidation and Sale of Assets

Comstock will not, in any single transaction or series of related transactions, merge or consolidate with or into any other Person, or sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of Comstock and its Restricted Subsidiaries on a consolidated basis to any Person or group of Affiliated Persons, and Comstock will not permit any of its Restricted Subsidiaries to enter into any such transaction or series of related transactions if such transaction or series of transactions, in the aggregate, would result in the sale, assignment, conveyance, transfer, lease or other disposition of all or substantially all of the properties and assets of Comstock and its Restricted Subsidiaries on a consolidated basis to any other Person or group of Affiliated Persons, unless at the time and after giving effect thereto:

- (1) either (a) if the transaction is a merger or consolidation, Comstock shall be the surviving Person of such merger or consolidation, or (b) the Person (if other than Comstock) formed by such consolidation or into which Comstock is merged or to which the properties and assets of Comstock or its Restricted

Subsidiaries, as the case may be, are sold, assigned, conveyed, transferred, leased or otherwise disposed of (any such surviving Person or transferee Person being the Surviving Entity) shall be a corporation organized and existing under the laws of the United States of America, any state thereof or the District of Columbia and shall, in either case,

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expressly assume by a supplemental indenture to the Indenture executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of Comstock under the notes and the Indenture, and, in each case, the Indenture shall remain in full force and effect;

- (2) immediately after giving effect to such transaction or series of related transactions on a pro forma basis (and treating any Indebtedness not previously an obligation of Comstock or any of its Restricted Subsidiaries which becomes an obligation of Comstock or any of its Restricted Subsidiaries in connection with or as a result of such transaction as having been incurred at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;
- (3) except in the case of the consolidation or merger of any Restricted Subsidiary with or into Comstock or another Restricted Subsidiary, either:
 - (a) immediately before and immediately after giving effect to such transaction or transactions on a pro forma basis (assuming that the transaction or transactions occurred on the first day of the period of four fiscal quarters ending immediately prior to the consummation of such transaction or transactions, with the appropriate adjustments with respect to the transaction or transactions being included in such pro forma calculation), Comstock (or the Surviving Entity if Comstock is not the continuing obligor under the Indenture) could incur \$1.00 of additional Indebtedness in accordance with the Fixed Charge Coverage Ratio test set forth in the first paragraph of the Limitation on Indebtedness and Disqualified Capital Stock covenant; or
 - (b) immediately after giving effect to such transaction or transactions on a pro forma basis (assuming that the transaction or transactions occurred on the first day of the period of four fiscal quarters ending immediately prior to the consummation of such transaction or transactions, with the appropriate adjustments with respect to the transaction or transactions being included in such pro forma calculation), the Fixed Charge Coverage Ratio of Comstock (or the Surviving Entity if Comstock is not the continuing obligor under the Indenture) will be equal to or greater than the Fixed Charge Coverage Ratio of Comstock immediately before such transaction or transactions;
- (4) if Comstock is not the continuing obligor under the Indenture, then each Subsidiary Guarantor, unless it is the Surviving Entity, shall have by supplemental indenture to the Indenture confirmed that its Subsidiary Guarantee of the notes shall apply to the Surviving Entity's obligations under the Indenture and the notes;
- (5) if any of the properties or assets of Comstock or any of its Restricted Subsidiaries would upon such transaction or series of related transactions become subject to any Lien (other than a Permitted Lien), the creation and imposition of such Lien shall have been in compliance with the Limitation on Liens covenant; and
- (6) Comstock (or the Surviving Entity if Comstock is not the continuing obligor under the Indenture) shall have delivered to the Trustee, in form and substance reasonably satisfactory to the Trustee, (a) an Officers Certificate stating that such consolidation, merger, transfer, lease or other disposition and any supplemental indenture in respect thereto comply with the requirements under the Indenture and (b) an Opinion of Counsel stating that the requirements of clause (1) of this paragraph have been satisfied.

Upon any consolidation or merger or any sale, assignment, lease, conveyance, transfer or other disposition of all or substantially all of the properties and assets of Comstock and its Restricted Subsidiaries on a consolidated basis in accordance with the foregoing, in which Comstock is not the continuing corporation, the Surviving Entity shall

succeed to, and be substituted for, and may exercise every right and power of, Comstock under the Indenture with the same effect as if the Surviving Entity had been named as

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Comstock therein, and thereafter Comstock, except in the case of a lease, will be discharged from all obligations and covenants under the Indenture and the notes and may be liquidated and dissolved.

Events of Default

The following are Events of Default under the Indenture:

- (1) default in the payment of the principal of or premium, if any, on any of the notes, whether such payment is due at Stated Maturity, upon redemption, upon repurchase pursuant to a Change of Control Offer or a Prepayment Offer, upon acceleration or otherwise;
- (2) default in the payment of any installment of interest on any of the notes, when due, and the continuance of such default for a period of 30 days;
- (3) default in the performance or breach of the provisions of the Merger, Consolidation and Sale of Assets section of the Indenture, the failure to make or consummate a Change of Control Offer in accordance with the provisions of the Change of Control covenant or the failure to make or consummate a Prepayment Offer in accordance with the provisions of the Limitation on Asset Sales covenant;
- (4) Comstock or any Subsidiary Guarantor shall fail to comply with the provisions described under Certain Covenants Reports for a period of 90 days after written notice of such failure stating that it is a notice of default under the Indenture shall have been given (a) to Comstock by the Trustee or (y) to Comstock and the Trustee by the Holders of at least 25% in aggregate principal amount of the notes then outstanding);
- (5) Comstock or any Subsidiary Guarantor shall fail to perform or observe any other term, covenant or agreement contained in the notes, any Subsidiary Guarantee or the Indenture (other than a default specified in (1), (2), (3) or (4) above) for a period of 60 days after written notice of such failure stating that it is a notice of default under the Indenture shall have been given (a) to Comstock by the Trustee or (b) to Comstock and the Trustee by the Holders of at least 25% in aggregate principal amount of the notes then outstanding);
- (6) the occurrence and continuation beyond any applicable grace period of any default in the payment of the principal of, premium, if any, or interest on any Indebtedness of Comstock (other than the notes) or any Subsidiary Guarantor or any other Restricted Subsidiary for money borrowed when due, or any other default resulting in acceleration of any Indebtedness of Comstock or any Subsidiary Guarantor or any other Restricted Subsidiary for money borrowed, provided that the aggregate principal amount of such Indebtedness, together with the aggregate principal amount of any other such Indebtedness under which there has been a payment default or the maturity of which has been so accelerated, shall exceed \$50.0 million and provided, further, that if any such default is cured or waived or any such acceleration rescinded, or such Indebtedness is repaid, within a period of 10 days from the continuation of such default beyond the applicable grace period or the occurrence of such acceleration, as the case may be, such Event of Default under the Indenture and any consequential acceleration of the notes shall be automatically rescinded, so long as such rescission does not conflict with any judgment or decree;
- (7) any Subsidiary Guarantee shall for any reason cease to be, or be asserted by Comstock or any Subsidiary Guarantor, as applicable, not to be in full force and effect (except pursuant to the release of any such Subsidiary Guarantee in accordance with the Indenture);

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- (8) failure by Comstock or any Subsidiary Guarantor or any other Restricted Subsidiary to pay final judgments or orders rendered against Comstock or any Subsidiary Guarantor or any other Restricted Subsidiary aggregating in excess of \$50.0 million (net of any amounts covered by insurance with a reputable and creditworthy insurance company that has not disclaimed liability) and either (a) commencement by any creditor of an enforcement proceeding upon such judgment (other than a judgment that is stayed by reason of a pending appeal or otherwise) or (b) the occurrence of a 60-day period during which a stay of such judgment or order, by reason of pending appeal or otherwise, was not in effect;
- (9) the entry of a decree or order by a court having jurisdiction in the premises (a) for relief in respect of Comstock or any Subsidiary Guarantor or any other Restricted Subsidiary in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or (b) adjudging Comstock or any Subsidiary Guarantor or any other Restricted Subsidiary bankrupt or insolvent, or approving a petition seeking reorganization, arrangement, adjustment or composition of Comstock or any Subsidiary Guarantor or any other Restricted Subsidiary under any applicable federal or state law, or appointing under any such law a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of Comstock or any Subsidiary Guarantor or any other Restricted Subsidiary or of a substantial part of its consolidated assets, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive days; or
- (10) the commencement by Comstock or any Subsidiary Guarantor or any other Restricted Subsidiary of a voluntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or any other case or proceeding to be adjudicated bankrupt or insolvent, or the consent by Comstock or any Subsidiary Guarantor or any other Restricted Subsidiary to the entry of a decree or order for relief in respect thereof in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by Comstock or any Subsidiary Guarantor or any other Restricted Subsidiary of a petition or consent seeking reorganization or relief under any applicable federal or state law, or the consent by it under any such law to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of Comstock or any Subsidiary Guarantor or any other Restricted Subsidiary or of any substantial part of its consolidated assets, or the making by it of an assignment for the benefit of creditors under any such law, or the admission by it in writing of its inability to pay its debts generally as they become due or taking of corporate action by Comstock or any Subsidiary Guarantor or any other Restricted Subsidiary in furtherance of any such action.

If an Event of Default (other than as specified in clause (9) or (10) above) shall occur and be continuing, the Trustee, by written notice to Comstock, or the Holders of at least 25% in aggregate principal amount of the notes then outstanding, by written notice to the Trustee and Comstock, may, and the Trustee upon the request of the Holders of not less than 25% in aggregate principal amount of the notes then outstanding shall, declare the principal of, premium, if any, and accrued and unpaid interest on all of the notes due and payable immediately, upon which declaration all amounts payable in respect of the notes shall be immediately due and payable. If an Event of Default specified in clause (9) or (10) above occurs and is continuing, then the principal of, premium, if any, and accrued and unpaid interest on all of the notes shall become and be immediately due and payable without any declaration, notice or other act on the part of the Trustee or any Holder of notes.

After a declaration of acceleration under the Indenture, but before a judgment or decree for payment of the money due has been obtained by the Trustee, the Holders of a majority in aggregate principal amount

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of the outstanding notes, by written notice to Comstock, the Subsidiary Guarantors and the Trustee, may rescind and annul such declaration if (1) Comstock or any Subsidiary Guarantor has paid or deposited with the Trustee a sum sufficient to pay (a) all sums paid or advanced by the Trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, (b) all overdue interest on all notes, (c) the principal of and premium, if any, on any notes which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the notes, and (d) to the extent that payment of such interest is lawful, interest upon overdue interest and overdue principal at the rate borne by the notes (without duplication of any amount paid or deposited pursuant to clause (b) or (c)); (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction; and (3) all Events of Default, other than the non-payment of principal of, premium, if any, or interest on the notes that has become due solely by such declaration of acceleration, have been cured or waived.

No Holder will have any right to institute any proceeding with respect to the Indenture or any remedy thereunder, unless such Holder has notified the Trustee of a continuing Event of Default and the Holders of at least 25% in aggregate principal amount of the outstanding notes have made written request, and offered such reasonable indemnity as the Trustee may require, to the Trustee to institute such proceeding as Trustee under the notes and the Indenture, the Trustee has failed to institute such proceeding within 60 days after receipt of such notice and the Trustee, within such 60-day period, has not received directions inconsistent with such written request by Holders of a majority in aggregate principal amount of the outstanding notes. Such limitations will not apply, however, to a suit instituted by the Holder of a note for the enforcement of the payment of the principal of, premium, if any, or interest on such note on or after the respective due dates expressed in such note.

During the existence of an Event of Default, the Trustee will be required to exercise such rights and powers vested in it under the Indenture and use the same degree of care and skill in its exercise thereof as a prudent person would exercise under the circumstances in the conduct of such person's own affairs. Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default shall occur and be continuing, the Trustee will not be under any obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the Holders unless such Holders shall have offered to the Trustee such reasonable security or indemnity as it may require. Subject to certain provisions concerning the rights of the Trustee, the Holders of a majority in aggregate principal amount of the outstanding notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee under the Indenture.

If a Default or an Event of Default occurs and is continuing and is known to the Trustee, the Trustee shall mail to each Holder notice of the Default or Event of Default within 60 days after the occurrence thereof. Except in the case of a Default or an Event of Default in payment of principal of, premium, if any, or interest on any notes, the Trustee may withhold the notice to the Holders of the notes if the Trustee determines in good faith that withholding the notice is in the interest of the Holders of the notes.

Comstock will be required to furnish to the Trustee annual statements as to the performance by Comstock of its obligations under the Indenture and as to any default in such performance. Comstock is also required to notify the Trustee within 10 days of any Default or Event of Default.

Legal Defeasance or Covenant Defeasance of Indenture

Comstock may, at its option and at any time, terminate the obligations of Comstock and the Subsidiary Guarantors with respect to the outstanding notes (such action being a legal defeasance). Such legal defeasance means that Comstock and the Subsidiary Guarantors shall be deemed to have paid and

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discharged the entire Indebtedness represented by the outstanding notes and to have been discharged from all their other obligations with respect to the notes and the Subsidiary Guarantees, except for, among other things:

the rights of Holders of outstanding notes to receive payment in respect of the principal of, premium, if any, and interest on such notes when such payments are due;

Comstock's obligations to replace any temporary notes, register the transfer or exchange of any notes, replace mutilated, destroyed, lost or stolen notes and maintain an office or agency for payments in respect of the notes;

the rights, powers, trusts, duties and immunities of the Trustee; and

the defeasance provisions of the Indenture.

In addition, Comstock may, at its option and at any time, elect to terminate the obligations of Comstock and each Subsidiary Guarantor with respect to certain covenants that are set forth in the Indenture, some of which are described under "Certain Covenants" above, and any omission to comply with such obligations shall not constitute a Default or an Event of Default with respect to the notes (such action being a "covenant defeasance").

In order to exercise either legal defeasance or covenant defeasance:

Comstock or any Subsidiary Guarantor must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of the notes, cash in United States dollars, U.S. Government Obligations (as defined in the Indenture), or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the outstanding notes to redemption or maturity;

Comstock shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such legal defeasance or covenant defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance or covenant defeasance had not occurred (in the case of legal defeasance, such opinion must refer to and be based upon a published ruling of the Internal Revenue Service or a change in applicable federal income tax laws);

no Default or Event of Default shall have occurred and be continuing on the date of such deposit or insofar as clauses (8) and (9) under the first paragraph of "Events of Default" are concerned, at any time during the period ending on the 91st day after the date of deposit;

such legal defeasance or covenant defeasance shall not cause the Trustee to have a conflicting interest under the Indenture or the Trust Indenture Act with respect to any securities of Comstock or any Subsidiary Guarantor;

such legal defeasance or covenant defeasance shall not result in a breach or violation of, or constitute a default under, any material agreement or instrument to which Comstock or any Subsidiary Guarantor is a party or by which it is bound; and

Comstock shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel satisfactory to the Trustee, which, taken together, state that all conditions precedent under the Indenture

to either legal defeasance or covenant defeasance, as the case may be, have been complied with.

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Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the notes, as expressly provided for in the Indenture) as to all outstanding notes when:

either (1) all the notes theretofore authenticated and delivered (except lost, stolen, mutilated or destroyed notes which have been replaced or paid and notes for whose payment money or certain United States government obligations have theretofore been deposited in trust or segregated and held in trust by Comstock and thereafter repaid to Comstock or discharged from such trust) have been delivered to the Trustee for cancellation or (2) all notes not theretofore delivered to the Trustee for cancellation have become due and payable or will become due and payable at their Stated Maturity within one year, or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the serving of notice of redemption by the Trustee in the name, and at the expense, of Comstock, and Comstock has irrevocably deposited or caused to be deposited with the Trustee funds in an amount sufficient to pay and discharge the entire Indebtedness on the notes not theretofore delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the notes to the date of deposit (in the case of notes which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be, together with instructions from Comstock irrevocably directing the Trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be;

Comstock has paid all other sums payable under the Indenture by Comstock; and

Comstock has delivered to the Trustee an Officers Certificate and an Opinion of Counsel which, taken together, state that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

Amendments and Waivers

From time to time, Comstock, the Subsidiary Guarantors and the Trustee may, without the consent of the Holders of the notes, amend or supplement the Indenture or the notes for certain specified purposes, including, among other things, curing ambiguities, defects or inconsistencies, qualifying, or maintaining the qualification of, the Indenture under the Trust Indenture Act, adding or releasing any Subsidiary Guarantor pursuant to the terms of the Indenture, or making any change that does not adversely affect the rights of any Holder of notes. Other amendments and modifications of the Indenture or the notes may be made by Comstock, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority of the aggregate principal amount of the outstanding notes; provided, however, that no such modification or amendment may, without the consent of the Holder of each outstanding note affected thereby:

change the Stated Maturity of the principal of, or any installment of interest on, any note;

reduce the principal amount of, premium, if any, or interest on any note;

change the coin or currency of payment of principal of, premium, if any, or interest on, any note;

impair the right to institute suit for the enforcement of any payment on or with respect to any note;

reduce the above-stated percentage of aggregate principal amount of outstanding notes necessary to modify or amend the Indenture;

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reduce the percentage of aggregate principal amount of outstanding notes necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

modify any provisions of the Indenture relating to the modification and amendment of the Indenture or the waiver of past defaults or covenants, except as otherwise specified;

modify any provisions of the Indenture relating to the Subsidiary Guarantees in a manner adverse to the Holders; or

amend, change or modify the obligation of Comstock to make and consummate a Change of Control Offer in the event of a Change of Control or make and consummate a Prepayment Offer with respect to any Asset Sale or modify any of the provisions or definitions with respect thereto.

The Holders of not less than a majority in aggregate principal amount of the outstanding notes may, on behalf of the Holders of all notes, waive any past default under the Indenture, except a default in the payment of principal of, premium, if any, or interest on the notes, or in respect of a covenant or provision which under the Indenture cannot be modified or amended without the consent of the Holder of each note outstanding.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator, stockholder, member, partner or trustee of Comstock or any Subsidiary Guarantor, as such, shall have any liability for any obligations of Comstock or any Subsidiary Guarantor under the notes, the Indenture or the Subsidiary Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes.

The Trustee

The Bank of New York Mellon Trust Company, N.A. serves as trustee under the Indenture. The Indenture (including provisions of the Trust Indenture Act incorporated by reference therein) contains limitations on the rights of the Trustee thereunder, should it become a creditor of Comstock, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Indenture permits the Trustee to engage in other transactions; provided, however, if it acquires any conflicting interest (as defined in the Trust Indenture Act), it must eliminate such conflict or resign. The Trustee also serves as the trustee under the indentures governing our 67/8% Senior Notes due 2012 and our 83/8 Senior Notes due 2017.

Governing Law

The Indenture, the notes and the Subsidiary Guarantees are governed by, and construed and enforced in accordance with, the laws of the State of New York.

Certain Definitions

Acquired Indebtedness means Indebtedness of a Person (1) existing at the time such Person becomes a Restricted Subsidiary or (2) assumed in connection with acquisitions of properties or assets from such Person (other than any Indebtedness incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary or such acquisition). Acquired Indebtedness shall be deemed to be incurred on the date the acquired Person becomes a Restricted Subsidiary or the date of the related acquisition of properties or assets from such Person.

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Additional Assets means:

- (1) any assets or property (other than cash, Cash Equivalents or securities) used in the Oil and Gas Business or any business ancillary thereto;
- (2) Investments in any other Person engaged in the Oil and Gas Business or any business ancillary thereto (including the acquisition from third parties of Capital Stock of such Person) as a result of which such other Person becomes a Restricted Subsidiary;
- (3) the acquisition from third parties of Capital Stock of a Restricted Subsidiary; or
- (4) capital expenditures by Comstock or a Restricted Subsidiary in the Oil and Gas Business.

Adjusted Consolidated Net Tangible Assets means (without duplication), as of the date of determination, the remainder of:

- (1) the sum of:
 - (a) discounted future net revenues from proved oil and gas reserves of Comstock and its Restricted Subsidiaries calculated in accordance with Commission guidelines before any state, federal or foreign income taxes, as estimated by Comstock and confirmed by a nationally recognized firm of independent petroleum engineers in a reserve report prepared as of the end of Comstock's most recently completed fiscal year for which audited financial statements are available, as increased by, as of the date of determination, the estimated discounted future net revenues from:
 - (i) estimated proved oil and gas reserves acquired since such year-end, which reserves were not reflected in such year-end reserve report, and
 - (ii) estimated oil and gas reserves attributable to upward revisions of estimates of proved oil and gas reserves since such year-end due to exploration, development or exploitation activities, in each case calculated in accordance with Commission guidelines (utilizing the prices utilized in such year-end reserve report),

and decreased by, as of the date of determination, the estimated discounted future net revenues from:

- (iii) estimated proved oil and gas reserves produced or disposed of since such year-end, and
- (iv) estimated oil and gas reserves attributable to downward revisions of estimates of proved oil and gas reserves since such year-end due to changes in geological conditions or other factors which would, in accordance with standard industry practice, cause such revisions, in each case calculated in accordance with Commission guidelines (utilizing the prices utilized in such year-end reserve report);

provided that, in the case of each of the determinations made pursuant to clauses (i) through (iv), such increases and decreases shall be as estimated by Comstock's petroleum engineers, unless there is a Material Change as a result of such acquisitions, dispositions or revisions, in which event the discounted future net revenues utilized for purposes of this clause (i)(a) shall be confirmed in writing by a nationally recognized firm of independent petroleum engineers;

- (b) the capitalized costs that are attributable to oil and gas properties of Comstock and its Restricted Subsidiaries to which no proved oil and gas reserves are attributable, based on

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Comstock's books and records as of a date no earlier than the date of Comstock's latest annual or quarterly financial statements;

- (c) the Net Working Capital on a date no earlier than the date of Comstock's latest annual or quarterly financial statements; and
 - (d) the greater of (i) the net book value on a date no earlier than the date of Comstock's latest annual or quarterly financial statements and (ii) the appraised value, as estimated by independent appraisers, of other tangible assets (including, without duplication, Investments in unconsolidated Restricted Subsidiaries) of Comstock and its Restricted Subsidiaries, as of the date no earlier than the date of Comstock's latest audited financial statements, minus
- (2) the sum of:
- (a) Minority Interests;
 - (b) any net gas balancing liabilities of Comstock and its Restricted Subsidiaries reflected in Comstock's latest audited financial statements;
 - (c) to the extent included in (1)(a) above, the discounted future net revenues, calculated in accordance with Commission guidelines (utilizing the prices utilized in Comstock's year-end reserve report), attributable to reserves which are required to be delivered to third parties to fully satisfy the obligations of Comstock and its Restricted Subsidiaries with respect to Volumetric Production Payments (determined, if applicable, using the schedules specified with respect thereto); and
 - (d) the discounted future net revenues, calculated in accordance with Commission guidelines, attributable to reserves subject to Dollar-Denominated Production Payments which, based on the estimates of production and price assumptions included in determining the discounted future net revenues specified in (1)(a) above, would be necessary to fully satisfy the payment obligations of Comstock and its Restricted Subsidiaries with respect to Dollar-Denominated Production Payments (determined, if applicable, using the schedules specified with respect thereto).

Adjusted Net Assets of a Subsidiary Guarantor at any date shall mean the amount by which the fair value of the properties and assets of such Subsidiary Guarantor exceeds the total amount of liabilities, including, without limitation, contingent liabilities (after giving effect to all other fixed and contingent liabilities incurred or assumed on such date), but excluding liabilities under its Subsidiary Guarantee, of such Subsidiary Guarantor at such date.

Affiliate means, with respect to any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, control, when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms controlling and controlled have meanings correlative to the foregoing. For purposes of this definition, beneficial ownership of 10% or more of the voting common equity (on a fully diluted basis) or options or warrants to purchase such equity (but only if exercisable at the date of determination or within 60 days thereof) of a Person shall be deemed to constitute control of such Person.

Asset Sale means any sale, issuance, conveyance, transfer, lease or other disposition to any Person other than Comstock or any of its Restricted Subsidiaries (including, without limitation, by means of a merger or consolidation) (collectively, for purposes of this definition, a transfer), directly or indirectly, in one or a

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series of related transactions, of (i) any Capital Stock of any Restricted Subsidiary, (ii) all or substantially all of the properties and assets of any division or line of business of Comstock or any of its Restricted Subsidiaries or (iii) any other properties or assets of Comstock or any of its Restricted Subsidiaries other than (a) a transfer of cash, Cash Equivalents, hydrocarbons or other mineral products in the ordinary course of business or (b) any lease, abandonment, disposition, relinquishment or farm-out of any oil and gas properties in the ordinary course of business. For the purposes of this definition, the term *Asset Sale* also shall not include (A) any transfer of properties or assets (including Capital Stock) that is governed by, and made in accordance with, the provisions described under *Merger, Consolidation and Sale of Assets*; (B) any transfer of properties or assets to an Unrestricted Subsidiary, if permitted under the *Limitation on Restricted Payments* covenant; or (C) any transfer (in a single transaction or a series of related transactions) of properties or assets (including Capital Stock) having a Fair Market Value of less than \$25.0 million.

Attributable Indebtedness means, with respect to any particular lease under which any Person is at the time liable and at any date as of which the amount thereof is to be determined, the present value of the total net amount of rent required to be paid by such Person under the lease during the primary term thereof, without giving effect to any renewals at the option of the lessee, discounted from the respective due dates thereof to such date at the rate of interest per annum implicit in the terms of the lease. As used in the preceding sentence, the net amount of rent under any lease for any such period shall mean the sum of rental and other payments required to be paid with respect to such period by the lessee thereunder excluding any amounts required to be paid by such lessee on account of maintenance and repairs, insurance, taxes, assessments, water rates or similar charges. In the case of any lease which is terminable by the lessee upon payment of a penalty, such net amount of rent shall also include the amount of such penalty, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated.

Average Life means, with respect to any Indebtedness, as at any date of determination, the quotient obtained by dividing (i) the sum of the products of (a) the number of years (and any portion thereof) from the date of determination to the date or dates of each successive scheduled principal payment (including, without limitation, any sinking fund or mandatory redemption payment requirements) of such Indebtedness multiplied by (b) the amount of each such principal payment by (ii) the sum of all such principal payments.

Bank Credit Agreement means that certain Third Amended and Restated Credit Agreement dated as of November 30, 2010 among Comstock, as Borrower, the lenders party thereto from time to time, Bank of Montreal, as Administrative Agent and Issuing Bank, Bank of America, N.A., as Syndication Agent, and Comerica Bank, JP Morgan Chase Bank, N.A. and Union Bank of California, N.A., as Co-Documentation Agents, and together with all related documents executed or delivered pursuant thereto at any time (including, without limitation, all mortgages, deeds of trust, guarantees, security agreements and all other collateral and security documents), in each case as such agreements may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time, including any agreement or agreements extending the maturity of, refinancing, replacing or otherwise restructuring (including into two or more separate credit facilities, and including increasing the amount of available borrowings thereunder provided that such increase in borrowings is within the definition of Permitted Indebtedness or is otherwise permitted under the covenant described under *Certain Covenants Limitation on Indebtedness and Disqualified Capital Stock*) or adding Subsidiaries as additional borrowers or guarantors thereunder and all or any portion of the Indebtedness and other Obligations under such agreement or agreements or any successor or replacement agreement or agreements, and whether by the same or any other agent(s), lender(s) or group(s) of lenders.

Capital Stock means, with respect to any Person, any and all shares, interests, participations, rights or other equivalents in the equity interests (however designated) in such Person, and any rights (other than debt securities convertible into an equity interest), warrants or options exercisable for, exchangeable for or convertible into such an equity interest in such Person.

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Capitalized Lease Obligation means any obligation to pay rent or other amounts under a lease of (or other agreement conveying the right to use) any property (whether real, personal or mixed) that is required to be classified and accounted for as a capital lease obligation under GAAP, and, for the purpose of the Indenture, the amount of such obligation at any date shall be the capitalized amount thereof at such date, determined in accordance with GAAP.

Cash Equivalents means:

- (1) any evidence of Indebtedness with a maturity of 180 days or less issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof);
- (2) demand and time deposits and certificates of deposit or acceptances with a maturity of 180 days or less of any financial institution that is a member of the Federal Reserve System having combined capital and surplus and undivided profits of not less than \$500 million;
- (3) commercial paper with a maturity of 180 days or less issued by a corporation that is not an Affiliate of Comstock and is organized under the laws of any state of the United States or the District of Columbia and rated at least A-1 by S&P or at least P-1 by Moody's;
- (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (1) above entered into with any commercial bank meeting the specifications of clause (2) above;
- (5) overnight bank deposits and bankers acceptances at any commercial bank meeting the qualifications specified in clause (2) above;
- (6) deposits available for withdrawal on demand with any commercial bank not meeting the qualifications specified in clause (2) above but which is a lending bank under the Bank Credit Agreement, provided all such deposits do not exceed \$5.0 million in the aggregate at any one time;
- (7) demand and time deposits and certificates of deposit with any commercial bank organized in the United States not meeting the qualifications specified in clause (2) above, provided that such deposits and certificates support bond, letter of credit and other similar types of obligations incurred in the ordinary course of business; and
- (8) investments in money market or other mutual funds substantially all of whose assets comprise securities of the types described in clauses (1) through (5) above.

Change of Control means the occurrence of any event or series of events by which:

- (1) any person or group (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 50% of the total Voting Stock of Comstock;
- (2) Comstock consolidates with or merges into another Person or any Person consolidates with, or merges into, Comstock, in any such event pursuant to a transaction in which the outstanding Voting Stock of Comstock is changed into or exchanged for cash, securities or other property, other than any such transaction where (a) the outstanding Voting Stock of Comstock is changed into or exchanged for Voting

Stock of the surviving or resulting Person that is Qualified Capital Stock and (b) the holders of the Voting Stock of Comstock immediately prior to such transaction

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own, directly or indirectly, not less than a majority of the Voting Stock of the surviving or resulting Person immediately after such transaction;

- (3) Comstock, either individually or in conjunction with one or more Restricted Subsidiaries, sells, assigns, conveys, transfers, leases or otherwise disposes of, or the Restricted Subsidiaries sell, assign, convey, transfer, lease or otherwise dispose of, all or substantially all of the properties and assets of Comstock and such Restricted Subsidiaries, taken as a whole (either in one transaction or a series of related transactions), including Capital Stock of the Restricted Subsidiaries, to any Person (other than Comstock or a Wholly Owned Restricted Subsidiary);
- (4) during any consecutive two-year period, individuals who at the beginning of such period constituted the Board of Directors of Comstock (together with any new directors whose election by such Board of Directors or whose nomination for election by the stockholders of Comstock was approved by a vote of 66²/₃% of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of Comstock then in office; or
- (5) Comstock is liquidated or dissolved.

Common Stock of any Person means Capital Stock of such Person that does not rank prior, as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation, dissolution or winding up of such Person, to shares of Capital Stock of any other class of such Person.

Consolidated Exploration Expenses means, for any period, exploration expenses of Comstock and its Restricted Subsidiaries for such period as determined on a consolidated basis in accordance with GAAP.

Consolidated Fixed Charge Coverage Ratio means, for any period, the ratio on a pro forma basis of (1) the sum of Consolidated Net Income, Consolidated Interest Expense, Consolidated Income Tax Expense and Consolidated Non-cash Charges each to the extent deducted in computing Consolidated Net Income, in each case, for such period, of Comstock and its Restricted Subsidiaries on a consolidated basis, all determined in accordance with GAAP, decreased (to the extent included in determining Consolidated Net Income) by the sum of (a) the amount of deferred revenues that are amortized during such period and are attributable to reserves that are subject to Volumetric Production Payments and (b) amounts recorded in accordance with GAAP as repayments of principal and interest pursuant to Dollar-Denominated Production Payments, to (2) Consolidated Interest Expense for such period; provided, however, that (i) the Consolidated Fixed Charge Coverage Ratio shall be calculated on a pro forma basis assuming that (A) the Indebtedness to be incurred (and all other Indebtedness incurred after the first day of such period of four full fiscal quarters referred to in the covenant described under *Certain Covenants Limitation on Indebtedness and Disqualified Capital Stock* through and including the date of determination), and (if applicable) the application of the net proceeds therefrom (and from any other such Indebtedness), including to refinance other Indebtedness, had been incurred on the first day of such four-quarter period and, in the case of Acquired Indebtedness, on the assumption that the related transaction (whether by means of purchase, merger or otherwise) also had occurred on such date with the appropriate adjustments with respect to such acquisition being included in such pro forma calculation and (B) any acquisition or disposition by Comstock or any Restricted Subsidiary of any properties or assets outside the ordinary course of business, or any repayment of any principal amount of any Indebtedness of Comstock or any Restricted Subsidiary prior to the Stated Maturity thereof, in either case since the first day of such period of four full fiscal quarters through and including the date of determination, had been consummated on such first day of such four-quarter period, (ii) in making such computation, the Consolidated Interest Expense attributable to interest on any Indebtedness required to be computed on a pro forma basis in accordance with the covenant described under *Certain Covenants Limitation on Indebtedness and Disqualified Capital Stock* and (A) bearing a floating interest rate shall be

computed as if the rate in effect on the date of computation had been the applicable rate for the entire period and (B) which

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was not outstanding during the period for which the computation is being made but which bears, at the option of Comstock, a fixed or floating rate of interest, shall be computed by applying, at the option of Comstock, either the fixed or floating rate, (iii) in making such computation, the Consolidated Interest Expense attributable to interest on any Indebtedness under a revolving credit facility required to be computed on a pro forma basis in accordance with the covenant described under *Certain Covenants Limitation on Indebtedness and Disqualified Capital Stock* shall be computed based upon the average daily balance of such Indebtedness during the applicable period, provided that such average daily balance shall be reduced by the amount of any repayment of Indebtedness under a revolving credit facility during the applicable period, which repayment permanently reduced the commitments or amounts available to be reborrowed under such facility, (iv) notwithstanding clauses (ii) and (iii) of this provision, interest on Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Interest Rate Protection Obligations, shall be deemed to have accrued at the rate per annum resulting after giving effect to the operation of such agreements, (v) in making such calculation, Consolidated Interest Expense shall exclude interest attributable to Dollar-Denominated Production Payments, and (vi) if after the first day of the period referred to in clause (1) of this definition Comstock has permanently retired any Indebtedness out of the Net Cash Proceeds of the issuance and sale of shares of Qualified Capital Stock of Comstock within 30 days of such issuance and sale, Consolidated Interest Expense shall be calculated on a pro forma basis as if such Indebtedness had been retired on the first day of such period.

Consolidated Income Tax Expense means, for any period, the provision for federal, state, local and foreign income taxes (including state franchise taxes accounted for as income taxes in accordance with GAAP) of Comstock and its Restricted Subsidiaries for such period as determined on a consolidated basis in accordance with GAAP.

Consolidated Interest Expense means, for any period, without duplication, the sum of (1) the interest expense of Comstock and its Restricted Subsidiaries for such period as determined on a consolidated basis in accordance with GAAP, including, without limitation, (a) any amortization of debt discount, (b) the net cost under Interest Rate Protection Obligations (including any amortization of discounts), (c) the interest portion of any deferred payment obligation constituting Indebtedness, (d) all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers acceptance financing and (e) all accrued interest, in each case to the extent attributable to such period, (2) to the extent any Indebtedness of any Person (other than Comstock or a Restricted Subsidiary) is guaranteed by Comstock or any Restricted Subsidiary, the aggregate amount of interest paid (to the extent not accrued in a prior period) or accrued by such other Person during such period attributable to any such Indebtedness, in each case to the extent attributable to that period, (3) the aggregate amount of the interest component of Capitalized Lease Obligations paid (to the extent not accrued in a prior period), accrued or scheduled to be paid or accrued by Comstock and its Restricted Subsidiaries during such period as determined on a consolidated basis in accordance with GAAP and (4) the aggregate amount of dividends paid (to the extent such dividends are not accrued in a prior period and excluding dividends paid in Qualified Capital Stock) or accrued on Disqualified Capital Stock of Comstock and its Restricted Subsidiaries, to the extent such Disqualified Capital Stock is owned by Persons other than Restricted Subsidiaries, less, to the extent included in any of clauses (1) through (4), amortization of capitalized debt issuance costs of Comstock and its Restricted Subsidiaries during such period.

Consolidated Net Income means, for any period, the consolidated net income (or loss) of Comstock and its Restricted Subsidiaries for such period as determined in accordance with GAAP, adjusted by excluding:

- (1) net after-tax extraordinary gains or losses (less all fees and expenses relating thereto);
- (2) net after-tax gains or losses (less all fees and expenses relating thereto) attributable to Asset Sales;
- (3) the net income (or net loss) of any Person (other than Comstock or any of its Restricted Subsidiaries), in which Comstock or any of its Restricted Subsidiaries has an ownership interest,

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except to the extent of the amount of dividends or other distributions actually paid to Comstock or any of its Restricted Subsidiaries in cash by such other Person during such period (regardless of whether such cash dividends or distributions are attributable to net income (or net loss) of such Person during such period or during any prior period);

- (4) the net income of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary is not at the date of determination permitted, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders;
- (5) dividends paid in Qualified Capital Stock;
- (6) income resulting from transfers of assets received by Comstock or any Restricted Subsidiary from an Unrestricted Subsidiary;
- (7) Consolidated Exploration Expenses and any write-downs or impairments of non-current assets; and
- (8) the cumulative effect of a change in accounting principles.

Consolidated Net Worth means, at any date, the consolidated stockholders' equity of Comstock and its Restricted Subsidiaries less the amount of such stockholders' equity attributable to Disqualified Capital Stock or treasury stock of Comstock and its Restricted Subsidiaries, as determined in accordance with GAAP.

Consolidated Non-cash Charges means, for any period, the aggregate depreciation, depletion, amortization and exploration expense and other non-cash expenses of Comstock and its Restricted Subsidiaries reducing Consolidated Net Income for such period, determined on a consolidated basis in accordance with GAAP (excluding any such non-cash charge for which an accrual of or reserve for cash charges for any future period is required).

Consolidated Total Indebtedness means, with respect to Comstock and its Restricted Subsidiaries as of any date of determination, the aggregate of all Indebtedness of Comstock and its Restricted Subsidiaries as of such date of determination, on a consolidated basis, determined in accordance with GAAP.

Default means any event, act or condition that is, or after notice or passage of time or both would become, an Event of Default.

Disinterested Director means, with respect to any transaction or series of transactions in respect of which the Board of Directors of Comstock is required to deliver a resolution of the Board of Directors under the Indenture, a member of the Board of Directors of Comstock who does not have any material direct or indirect financial interest (other than an interest arising solely from the beneficial ownership of Capital Stock of Comstock) in or with respect to such transaction or series of transactions.

Disqualified Capital Stock means any Capital Stock that, either by its terms, by the terms of any security into which it is convertible or exchangeable or by contract or otherwise, is, or upon the happening of an event or passage of time would be, required to be redeemed or repurchased prior to the final Stated Maturity of the notes or is redeemable at the option of the Holder thereof at any time prior to such final Stated Maturity, or is convertible into or exchangeable for debt securities at any time prior to such final Stated Maturity. For purposes of the covenant described under Certain Covenants Limitation on Indebtedness and Disqualified Capital Stock, Disqualified Capital Stock shall be valued at the greater of its voluntary or involuntary maximum fixed redemption or repurchase price plus accrued and unpaid dividends. For such purposes, the maximum fixed redemption or repurchase price of any Disqualified Capital Stock

which does

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not have a fixed redemption or repurchase price shall be calculated in accordance with the terms of such Disqualified Capital Stock as if such Disqualified Capital Stock were redeemed or repurchased on the date of determination, and if such price is based upon, or measured by, the fair market value of such Disqualified Capital Stock, such fair market value shall be determined in good faith by the board of directors of the issuer of such Disqualified Capital Stock; provided, however, that if such Disqualified Capital Stock is not at the date of determination permitted or required to be redeemed or repurchased, the maximum fixed redemption or repurchase price shall be the book value of such Disqualified Capital Stock.

Dollar-Denominated Production Payments means production payment obligations of Comstock or a Restricted Subsidiary recorded as liabilities in accordance with GAAP, together with all undertakings and obligations in connection therewith.

Equity Interests means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

Event of Default has the meaning set forth above under the caption Events of Default.

Exchanged Properties means properties or assets used or useful in the Oil and Gas Business received by Comstock or a Restricted Subsidiary in trade or as a portion of the total consideration for other such properties or assets.

Fair Market Value means with respect to any asset or property, the sale value that would be obtained in an arm's-length free market transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy. Fair Market Value of an asset or property equal to or in excess of \$10.0 million shall be determined by the Board of Directors of Comstock acting in good faith, whose determination shall be conclusive and evidenced by a resolution of such Board of Directors delivered to the Trustee, and any lesser Fair Market Value may be determined by an officer of Comstock acting in good faith.

GAAP means generally accepted accounting principles in the United States of America as in effect from time to time. All ratios and computations based on GAAP contained in the Indenture will be computed in conformity with GAAP.

The term *guarantee* means, as applied to any obligation, (1) a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner, of any part or all of such obligation and (ii) an agreement, direct or indirect, contingent or otherwise, the practical effect of which is to assure in any way the payment or performance (or payment of damages in the event of non-performance) of all or any part of such obligation, including, without limiting the foregoing, the payment of amounts drawn down under letters of credit. When used as a verb, *guarantee* has a corresponding meaning.

Holder means a Person in whose name a note is registered in the Note Register.

Indebtedness means, with respect to any Person, without duplication:

- (1) all liabilities of such Person, contingent or otherwise, for borrowed money or for the deferred purchase price of property or services (excluding any trade accounts payable and other accrued current liabilities incurred and reserves established in the ordinary course of business) and all liabilities of such Person incurred in connection with any agreement to purchase, redeem, exchange, convert or otherwise acquire for value any Capital Stock of such Person, or any warrants, rights or options to acquire such Capital Stock, outstanding on the Issue Date or thereafter, if, and to the extent, any of the foregoing would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP;

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- (2) all obligations of such Person evidenced by bonds, notes, debentures or other similar instruments, if, and to the extent, any of the foregoing would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP;
- (3) all obligations of such Person with respect to letters of credit;
- (4) all indebtedness of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even if the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), but excluding trade accounts payable arising and reserves established in the ordinary course of business;
- (5) all Capitalized Lease Obligations of such Person;
- (6) the Attributable Indebtedness (in excess of any related Capitalized Lease Obligations) related to any Sale/Leaseback Transaction of such Person;
- (7) all Indebtedness referred to in the preceding clauses of other Persons and all dividends of other Persons, the payment of which is secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness (the amount of such obligation being deemed to be the lesser of the value of such property or the amount of the obligation so secured);
- (8) all guarantees by such Person of Indebtedness referred to in this definition (including, with respect to any Production Payment, any warranties or guaranties of production or payment by such Person with respect to such Production Payment but excluding other contractual obligations of such Person with respect to such Production Payment); and
- (9) all obligations of such Person under or in respect of currency exchange contracts, oil and natural gas price hedging arrangements and Interest Rate Protection Obligations.

Subject to clause (8) of the first sentence of this definition, neither Dollar-Denominated Production Payments nor Volumetric Production Payments shall be deemed to be Indebtedness. In addition, Disqualified Capital Stock shall not be deemed to be Indebtedness.

Interest Rate Protection Obligations means the obligations of any Person pursuant to any arrangement with any other Person whereby, directly or indirectly, such Person is entitled to receive from time to time periodic payments calculated by applying either a floating or a fixed rate of interest on a stated notional amount in exchange for periodic payments made by such Person calculated by applying a fixed or a floating rate of interest on the same notional amount and shall include, without limitation, interest rate swaps, caps, floors, collars and similar agreements or arrangements designed to protect against or manage such Person's and any of its Subsidiaries exposure to fluctuations in interest rates.

Investment means, with respect to any Person, any direct or indirect advance, loan, guarantee of Indebtedness or other extension of credit or capital contribution by such Person to (by means of any transfer of cash or other property or assets to others or any payment for property, assets or services for the account or use of others), or any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities (including derivatives) or

evidences of Indebtedness issued by, any other Person. In addition, the Fair Market Value of the net assets of any Restricted Subsidiary at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary shall be deemed to be an Investment made by Comstock in such Unrestricted Subsidiary at such time. Investments shall exclude (1) extensions of trade credit or other

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advances to customers on commercially reasonable terms in accordance with normal trade practices or otherwise in the ordinary course of business, (2) Interest Rate Protection Obligations entered into in the ordinary course of business or as required by any Permitted Indebtedness or any Indebtedness incurred in compliance with the Limitation on Indebtedness and Disqualified Capital Stock covenant, but only to the extent that the stated aggregate notional amounts of such Interest Rate Protection Obligations do not exceed 105% of the aggregate principal amount of such Indebtedness to which such Interest Rate Protection Obligations relate and (3) endorsements of negotiable instruments and documents in the ordinary course of business. If Comstock or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of any direct or indirect Restricted Subsidiary of Comstock such that, after giving effect to such sale or disposition, such Person is no longer a Restricted Subsidiary of Comstock, Comstock will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of Comstock's Investments in such Restricted Subsidiary that were not sold or disposed of.

Issue Date means the date of original issuance of the notes.

Lien means any mortgage, charge, pledge, lien (statutory or other), security interest, hypothecation, assignment for security, claim or similar type of encumbrance (including, without limitation, any agreement to give or grant any lease, conditional sale or other title retention agreement having substantially the same economic effect as any of the foregoing) upon or with respect to any property of any kind. A Person shall be deemed to own subject to a Lien any property which such Person has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement.

Liquid Securities means securities (1) of an issuer that is not an Affiliate of Comstock, (2) that are publicly traded on the New York Stock Exchange, the American Stock Exchange or the Nasdaq Stock Market and (3) as to which Comstock is not subject to any restrictions on sale or transfer (including any volume restrictions under Rule 144 under the Securities Act or any other restrictions imposed by the Securities Act) or as to which a registration statement under the Securities Act covering the resale thereof is in effect for as long as the securities are held; provided that securities meeting the requirements of clauses (1), (2) and (3) above shall be treated as Liquid Securities from the date of receipt thereof until and only until the earlier of (a) the date on which such securities are sold or exchanged for cash or Cash Equivalents and (b) 150 days following the date of receipt of such securities. If such securities are not sold or exchanged for cash or Cash Equivalents within 120 days of receipt thereof, for purposes of determining whether the transaction pursuant to which Comstock or a Restricted Subsidiary received the securities was in compliance with the provisions of the Indenture described under Certain Covenants Limitation on Asset Sales, such securities shall be deemed not to have been Liquid Securities at any time.

Material Change means an increase or decrease (except to the extent resulting from changes in prices) of more than 30% during a fiscal quarter in the estimated discounted future net revenues from proved oil and gas reserves of Comstock and its Restricted Subsidiaries, calculated in accordance with clause (1)(a) of the definition of Adjusted Consolidated Net Tangible Assets; provided, however, that the following will be excluded from the calculation of Material Change: (i) any acquisitions during the quarter of oil and gas reserves with respect to which Comstock's estimate of the discounted future net revenues from proved oil and gas reserves has been confirmed by independent petroleum engineers and (ii) any dispositions of properties and assets during such quarter that were disposed of in compliance with the provisions of the Indenture described under Certain Covenants Limitation on Asset Sales.

Maturity means, with respect to any note, the date on which any principal of such note becomes due and payable as therein or in the Indenture provided, whether at the Stated Maturity with respect to such principal or by declaration of acceleration, call for redemption or purchase or otherwise.

Minority Interest means the percentage interest represented by any class of Capital Stock of a Restricted Subsidiary that are not owned by Comstock or a Restricted Subsidiary.

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Moody's means Moody's Investors Service, Inc. or any successor to the rating agency business thereof.

Net Available Cash from an Asset Sale or Sale/Leaseback Transaction means cash proceeds received therefrom (including (1) any cash proceeds received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received, and (2) the Fair Market Value of Liquid Securities and Cash Equivalents, and excluding (a) any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the assets or property that is the subject of such Asset Sale or Sale/Leaseback Transaction and (b) except to the extent subsequently converted to cash, Cash Equivalents or Liquid Securities within 240 days after such Asset Sale or Sale/Leaseback Transaction, consideration constituting Exchanged Properties or consideration other than as identified in the immediately preceding clauses (1) and (2)), in each case net of (i) all legal, title and recording expenses, commissions and other fees and expenses incurred, and all federal, state, foreign and local taxes required to be paid or accrued as a liability under GAAP as a consequence of such Asset Sale or Sale/Leaseback Transaction, (ii) all payments made on any Indebtedness (but specifically excluding Indebtedness of Comstock and its Restricted Subsidiaries assumed in connection with or in anticipation of such Asset Sale or Sale/Leaseback Transaction) which is secured by any assets subject to such Asset Sale or Sale/Leaseback Transaction, in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Sale or Sale/Leaseback Transaction or by applicable law, be repaid out of the proceeds from such Asset Sale or Sale/Leaseback Transaction, provided that such payments are made in a manner that results in the permanent reduction in the balance of such Indebtedness and, if applicable, a permanent reduction in any outstanding commitment for future incurrences of Indebtedness thereunder, (iii) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Sale or Sale/Leaseback Transaction and (d) the deduction of appropriate amounts to be provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the assets disposed of in such Asset Sale or Sale/Leaseback Transaction and retained by Comstock or any Restricted Subsidiary after such Asset Sale or Sale/Leaseback Transaction; provided, however, that if any consideration for an Asset Sale or Sale/Leaseback Transaction (which would otherwise constitute Net Available Cash) is required to be held in escrow pending determination of whether a purchase price adjustment will be made, such consideration (or any portion thereof) shall become Net Available Cash only at such time as it is released to such Person or its Restricted Subsidiaries from escrow.

Net Cash Proceeds with respect to any issuance or sale of Qualified Capital Stock or other securities, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees and expenses actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

Net Working Capital means (1) all current assets of Comstock and its Restricted Subsidiaries, less (2) all current liabilities of Comstock and its Restricted Subsidiaries, except current liabilities included in Indebtedness, in each case as set forth in consolidated financial statements of Comstock prepared in accordance with GAAP.

Non-Recourse Indebtedness means Indebtedness or that portion of Indebtedness of Comstock or any Restricted Subsidiary incurred in connection with the acquisition by Comstock or such Restricted Subsidiary of any property or assets and as to which (i) the holders of such Indebtedness agree that they will look solely to the property or assets so acquired and securing such Indebtedness for payment on or in respect of such Indebtedness, and neither Comstock nor any Subsidiary (other than an Unrestricted Subsidiary) (a) provides credit support, including any undertaking, agreement or instrument which would constitute Indebtedness, or (b) is directly or indirectly liable for such Indebtedness, and (ii) no default with respect to such Indebtedness would permit (after notice or passage of time or both), according to the terms thereof, any holder of any Indebtedness of Comstock or a Restricted Subsidiary to declare a default on such Indebtedness or cause the payment thereof to be accelerated or payable prior to its Stated

Maturity.

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Note Register means the register maintained by or for Comstock in which Comstock shall provide for the registration of the notes and the transfer of the notes.

Obligations means all obligations for principal, premium, interest, penalties, fees, indemnifications, payments with respect to any letters of credit, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

Oil and Gas Business means (i) the acquisition, exploration, development, operation and disposition of interests in oil, gas and other hydrocarbon properties, (ii) the gathering, marketing, treating, processing, storage, refining, selling and transporting of any production from such interests or properties, (iii) any business relating to or arising from exploration for or development, production, treatment, processing, storage, refining, transportation or marketing of oil, gas and other minerals and products produced in association therewith, and (iv) any activity necessary, appropriate or incidental to the activities described in the foregoing clauses (i) through (iii) of this definition.

Permitted Investments means any of the following:

- (1) Investments in Cash Equivalents;
- (2) Investments in property, plant and equipment used in the ordinary course of business;
- (3) Investments in Comstock or any of its Restricted Subsidiaries;
- (4) Investments by Comstock or any of its Restricted Subsidiaries in another Person, if (a) as a result of such Investment (i) such other Person becomes a Restricted Subsidiary or (ii) such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all of its properties and assets to, Comstock or a Restricted Subsidiary and (b) such other Person is primarily engaged in the Oil and Gas Business;
- (5) entry into operating agreements, joint ventures, partnership agreements, working interests, royalty interests, mineral leases, processing agreements, farm-out agreements, contracts for the sale, transportation or exchange of oil and natural gas, unitization agreements, pooling arrangements, area of mutual interest agreements or other similar or customary agreements, transactions, properties, interests or arrangements, and Investments and expenditures in connection therewith or pursuant thereto, in each case made or entered into in the ordinary course of the Oil and Gas Business;
- (6) entry into any hedging arrangements in the ordinary course of business for the purpose of protecting Comstock's or any Restricted Subsidiary's production, purchases and resales against fluctuations in oil or natural gas prices;
- (7) entry into any currency exchange contract in the ordinary course of business;
- (8) Investments in stock, obligations or securities received in settlement of debts owing to Comstock or any Restricted Subsidiary as a result of bankruptcy or insolvency proceedings or upon the foreclosure, perfection or enforcement of any Lien in favor of Comstock or any Restricted Subsidiary, in each case as to debt owing to Comstock or any Restricted Subsidiary that arose in the ordinary course of business of Comstock or any such Restricted Subsidiary;
- (9)

guarantees of Indebtedness permitted under the Limitation on Indebtedness and Disqualified Capital Stock covenant; and

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- (10) other Investments, in an aggregate amount not to exceed at any one time outstanding the greater of (a) \$25.0 million and (b) 5% of Adjusted Consolidated Net Tangible Assets.

Permitted Liens means the following types of Liens:

- (1) Liens securing Indebtedness of Comstock or any Restricted Subsidiary that constitutes Priority Credit Facility Debt permitted pursuant to clause (1) of the definition of *Permitted Indebtedness* ;
- (2) Liens existing as of the Issue Date (excluding Liens securing Indebtedness of Comstock under the Bank Credit Agreement);
- (3) Liens securing the notes or the Subsidiary Guarantees;
- (4) Liens in favor of Comstock or any Restricted Subsidiary;
- (5) Liens for taxes, assessments and governmental charges or claims either (a) not delinquent or (b) contested in good faith by appropriate proceedings and as to which Comstock or its Restricted Subsidiaries shall have set aside on its books such reserves as may be required pursuant to GAAP;
- (6) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not delinquent or being contested in good faith, if such reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made in respect thereof;
- (7) Liens incurred or deposits made in the ordinary course of business in connection with workers compensation, unemployment insurance and other types of social security, or to secure the payment or performance of tenders, statutory or regulatory obligations, surety and appeal bonds, bids, government contracts and leases, performance and return of money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money but including lessee or operator obligations under statutes, governmental regulations or instruments related to the ownership, exploration and production of oil, gas and minerals on state, Federal or foreign lands or waters);
- (8) judgment and attachment Liens not giving rise to an Event of Default so long as any appropriate legal proceedings which may have been duly initiated for the review of such judgment shall not have been finally terminated or the period within which such proceeding may be initiated shall not have expired;
- (9) easements, rights-of-way, restrictions and other similar charges or encumbrances not interfering in any material respect with the ordinary conduct of the business of Comstock or any of its Restricted Subsidiaries;
- (10) any interest or title of a lessor under any capitalized lease or operating lease;
- (11) purchase money Liens; provided, however, that (a) the related purchase money Indebtedness shall not be secured by any property or assets of Comstock or any Restricted Subsidiary other than the property or assets so acquired (including, without limitation, those acquired indirectly through the acquisition of stock or other ownership interests) and any proceeds therefrom, (b) the aggregate principal amount of Indebtedness secured by such Liens it otherwise permitted to be incurred under the Indenture and does not exceed the cost of the property or assets so

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- acquired and (c) the Liens securing such Indebtedness shall be created within 90 days of such acquisition;
- (12) Liens securing obligations under hedging agreements that Comstock or any Restricted Subsidiary enters into in the ordinary course of business for the purpose of protecting its production, purchases and resales against fluctuations in oil or natural gas prices;
 - (13) Liens upon specific items of inventory or other goods of any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
 - (14) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property or assets relating to such letters of credit and products and proceeds thereof;
 - (15) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of Comstock or its Restricted Subsidiaries relating to such property or assets;
 - (16) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual or warranty requirements of Comstock or any of its Restricted Subsidiaries, including rights of offset and set-off;
 - (17) Liens securing Interest Rate Protection Obligations which Interest Rate Protection Obligations relate to Indebtedness that is secured by Liens otherwise permitted under the Indenture;
 - (18) Liens (other than Liens securing Indebtedness) on, or related to, properties or assets to secure all or part of the costs incurred in the ordinary course of business for the exploration, drilling, development or operation thereof;
 - (19) Liens on pipeline or pipeline facilities which arise by operation of law;
 - (20) Liens arising under operating agreements, joint venture agreements, partnership agreements, oil and gas leases, farm-out agreements, division orders, contracts for the sale, transportation or exchange of oil and natural gas, unitization and pooling declarations and agreements, area of mutual interest agreements and other agreements which are customary in the Oil and Gas Business;
 - (21) Liens reserved in oil and gas mineral leases for bonus or rental payments or for compliance with the terms of such leases;
 - (22) Liens constituting survey exceptions, encumbrances, easements, or reservations of, or rights to others for, rights-of-way, zoning or other restrictions as to the use of real properties, and minor defects of title which, in the case of any of the foregoing, were not incurred or created to secure the payment of borrowed money or the deferred purchase price of property, assets or services, and in the aggregate do not materially adversely affect the value of properties and assets of Comstock and the Restricted Subsidiaries, taken as a whole, or materially impair the use of such properties and assets for the purposes for which such properties and assets are held by Comstock or any Restricted Subsidiaries;
 - (23) Liens securing Non-Recourse Indebtedness; provided, however, that the related Non-Recourse Indebtedness shall not be secured by any property or assets of Comstock or any Restricted Subsidiary

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acquired indirectly through the acquisition of stock or other ownership interests) by Comstock or any Restricted Subsidiary with the proceeds of such Non-Recourse Indebtedness;

- (24) Liens on property existing at the time of acquisition thereof by Comstock or any Subsidiary of Comstock and Liens on property or assets of a Subsidiary existing at the time it became a Subsidiary, provided that such Liens were in existence prior to the contemplation of the acquisition and do not extend to any assets other than the acquired property;
- (25) Liens resulting from the deposit of funds or evidences of Indebtedness in trust for the purpose of defeasing Indebtedness of Comstock or any of its Restricted Subsidiaries so long as such deposit and such defeasance are permitted under the covenant described under Certain Covenants Limitation on Restricted Payments; and
- (26) additional Liens incurred in the ordinary course of business of Comstock or any Restricted Subsidiary of Comstock with respect to obligations that do not exceed at any one time outstanding the greater of (a) \$75.0 million or (b) 5% of Adjusted Consolidated Net Tangible Assets.

Notwithstanding anything in clauses (1) through (25) of this definition, the term Permitted Liens does not include any Liens resulting from the creation, incurrence, issuance, assumption or guarantee of any Production Payments other than Production Payments that are created, incurred, issued, assumed or guaranteed in connection with the financing of, and within 30 days after, the acquisition of the properties or assets that are subject thereto.

Permitted Refinancing Indebtedness means Indebtedness of Comstock or a Restricted Subsidiary, the net proceeds of which are used to renew, extend, refinance, refund or repurchase (including, without limitation, pursuant to a Change of Control Offer or Prepayment Offer) outstanding Indebtedness of Comstock or any Restricted Subsidiary, provided that (1) if the Indebtedness (including the notes) being renewed, extended, refinanced, refunded or repurchased is *pari passu* with or subordinated in right of payment to either the notes or the Subsidiary Guarantees, then such Indebtedness is *pari passu* with or subordinated in right of payment to the notes or the Subsidiary Guarantees, as the case may be, at least to the same extent as the Indebtedness being renewed, extended, refinanced, refunded or repurchased, (2) such Indebtedness has a Stated Maturity for its final scheduled principal payment that is no earlier than the Stated Maturity for the final scheduled principal payment of the Indebtedness being renewed, extended, refinanced, refunded or repurchased and (3) such Indebtedness has an Average Life at the time such Indebtedness is incurred that is equal to or greater than the Average Life of the Indebtedness being renewed, extended, refinanced, refunded or repurchased; provided, further, that such Indebtedness is in an aggregate principal amount (or, if such Indebtedness is issued at a price less than the principal amount thereof, the aggregate amount of gross proceeds therefrom is) not in excess of the aggregate principal amount then outstanding of the Indebtedness being renewed, extended, refinanced, refunded or repurchased (or if the Indebtedness being renewed, extended, refinanced, refunded or repurchased was issued at a price less than the principal amount thereof, then not in excess of the amount of liability in respect thereof determined in accordance with GAAP) plus the amount of any premium required to be paid in connection with such renewal, extension or refinancing, refunding or repurchase pursuant to the terms of the Indebtedness being renewed, extended, refinanced, refunded or repurchased or the amount of any premium reasonably determined by Comstock as necessary to accomplish such renewal, extension, refinancing, refunding or repurchase, plus the amount of reasonable fees and expenses incurred by Comstock or such Restricted Subsidiary in connection therewith.

Person means any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

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Priority Credit Facility Debt means, collectively, (1) Indebtedness of Comstock or any Restricted Subsidiary (including, without limitation, Indebtedness under the Bank Credit Agreement) secured by Liens not otherwise permitted under any of clauses (2) through (25), inclusive, of the definition of Permitted Liens, and (2) other Indebtedness or Disqualified Capital Stock of any Restricted Subsidiary that is not a Subsidiary Guarantor. For purposes of clause (1) of the definition of Permitted Indebtedness, Priority Credit Facility Debt shall be calculated, at any time of determination, (a) in the case of Indebtedness under the Bank Credit Agreement or Indebtedness under any other instrument or agreement, with reference to the aggregate principal amount outstanding thereunder at such time, excluding all interest, fees and other Obligations under such facility, instrument or agreement, and (b) in the case of Disqualified Capital Stock, in the manner specified in the definition of Disqualified Capital Stock.

Preferred Stock means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of such Person's preferred or preference stock, whether now outstanding or issued after the Issue Date, including, without limitation, all classes and series of preferred or preference stock of such Person.

Production Payments means, collectively, Dollar-Denominated Production Payments and Volumetric Production Payments.

Public Equity Offering means an offer and sale of Common Stock (other than Disqualified Stock) of Comstock for cash pursuant to a registration statement that has been declared effective by the Commission pursuant to the Securities Act (other than a registration statement on Form S-8 or otherwise relating to equity securities issuable under any employee benefit plan of Comstock).

Qualified Capital Stock of any Person means any and all Capital Stock of such Person other than Disqualified Capital Stock.

Restricted Investment means (without duplication) (i) the designation of a Subsidiary as an Unrestricted Subsidiary in the manner described in the definition of Unrestricted Subsidiary and (ii) any Investment other than a Permitted Investment.

Restricted Subsidiary means any Subsidiary of Comstock, whether existing on or after the Issue Date, unless such Subsidiary of Comstock is an Unrestricted Subsidiary or is designated as an Unrestricted Subsidiary pursuant to the terms of the Indenture.

S&P means Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or any successor to the rating agency business thereof.

Sale/Leaseback Transaction means, with respect to Comstock or any of its Restricted Subsidiaries, any arrangement with any Person providing for the leasing by Comstock or any of its Restricted Subsidiaries of any principal property, whereby such property has been or is to be sold or transferred by Comstock or any of its Restricted Subsidiaries to such Person.

Senior Indebtedness means any Indebtedness of Comstock or a Restricted Subsidiary (whether outstanding on the date hereof or hereinafter incurred), unless such Indebtedness is Subordinated Indebtedness.

Stated Maturity means, when used with respect to any Indebtedness or any installment of interest thereon, the date specified in the instrument evidencing or governing such Indebtedness as the fixed date on which the principal of such Indebtedness or such installment of interest is due and payable.

Subordinated Indebtedness means Indebtedness of Comstock or a Subsidiary Guarantor which is expressly subordinated in right of payment to the notes or the Subsidiary Guarantees, as the case may be.

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Subsidiary means, with respect to any Person, (1) a corporation a majority of whose Voting Stock is at the time owned, directly or indirectly, by such Person, by one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person, or (2) any other Person (other than a corporation), including, without limitation, a joint venture, in which such Person, one or more Subsidiaries of such Person or such Person and one or more Subsidiaries of such Person have, directly or indirectly, at the date of determination thereof, at least majority ownership interest entitled to vote in the election of directors, managers or trustees thereof (or other Person performing similar functions).

Subsidiary Guarantee means any guarantee of the notes by any Subsidiary Guarantor in accordance with the provisions described under *Subsidiary Guarantees of Notes* and *Certain Covenants Limitation on Guarantees by Restricted Subsidiaries*.

Subsidiary Guarantor means (1) Comstock Oil & Gas, LP, (2) Comstock Oil & Gas Louisiana, LLC, (3) Comstock Oil & Gas GP, LLC, (4) Comstock Oil & Gas Investments, LLC, (5) Comstock Oil & Gas Holdings, Inc., (6) each of Comstock's other Restricted Subsidiaries, if any, executing a supplemental indenture in which such Subsidiary agrees to be bound by the terms of the Indenture and (7) any Person that becomes a successor guarantor of the notes in compliance with the provisions described under *Subsidiary Guarantees of Notes* and *Certain Covenants Limitation on Guarantees by Restricted Subsidiaries*.

2009 Notes Issue Date means October 9, 2009.

Unrestricted Subsidiary means (1) any Subsidiary of Comstock that at the time of determination will be designated an Unrestricted Subsidiary by the Board of Directors of Comstock as provided below and (2) any Subsidiary of an Unrestricted Subsidiary. The Board of Directors of Comstock may designate any Subsidiary of Comstock as an Unrestricted Subsidiary so long as (a) neither Comstock nor any Restricted Subsidiary is directly or indirectly liable pursuant to the terms of any Indebtedness of such Subsidiary; (b) no default with respect to any Indebtedness of such Subsidiary would permit (upon notice, lapse of time or otherwise) any holder of any other Indebtedness of Comstock or any Restricted Subsidiary to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its Stated Maturity; (c) such designation as an Unrestricted Subsidiary would be permitted under the *Limitation on Restricted Payments* covenant; and (d) such designation shall not result in the creation or imposition of any Lien on any of the properties or assets of Comstock or any Restricted Subsidiary (other than any Permitted Lien or any Lien the creation or imposition of which shall have been in compliance with the *Limitation on Liens* covenant); provided, however, that with respect to clause (a), Comstock or a Restricted Subsidiary may be liable for Indebtedness of an Unrestricted Subsidiary if (i) such liability constituted a Permitted Investment or a Restricted Payment permitted by the *Limitation on Restricted Payments* covenant, in each case at the time of incurrence, or (ii) the liability would be a Permitted Investment at the time of designation of such Subsidiary as an Unrestricted Subsidiary. Any such designation by the Board of Directors of Comstock shall be evidenced to the Trustee by filing a Board Resolution with the Trustee giving effect to such designation. If, at any time any Unrestricted Subsidiary would fail to meet the foregoing requirements as an Unrestricted Subsidiary, it shall thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary shall be deemed to be Incurred as of such date. The Board of Directors of Comstock may designate any Unrestricted Subsidiary as a Restricted Subsidiary if, immediately after giving effect to such designation on a pro forma basis, (i) no Default or Event of Default shall have occurred and be continuing, (ii) Comstock could incur \$1.00 of additional Indebtedness under the first paragraph of the *Limitation on Indebtedness and Disqualified Capital Stock* covenant and (iii) if any of the properties and assets of Comstock or any of its Restricted Subsidiaries would upon such designation become subject to any Lien (other than a Permitted Lien), the creation or imposition of such Lien shall have been in compliance with the *Limitation on Liens* covenant.

Volumetric Production Payments means production payment obligations of Comstock or a Restricted Subsidiary recorded as deferred revenue in accordance with GAAP, together with all undertakings and obligations in connection therewith.

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Voting Stock means any class or classes of Capital Stock pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of any Person (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

Wholly Owned Restricted Subsidiary means any Restricted Subsidiary of Comstock to the extent (1) all of the Capital Stock or other ownership interests in such Restricted Subsidiary, other than directors' qualifying shares mandated by applicable law, is owned directly or indirectly by Comstock or (2) such Restricted Subsidiary does substantially all of its business in one or more foreign jurisdictions and is required by the applicable laws and regulations of any such foreign jurisdiction to be partially owned by the government of such foreign jurisdiction or individual or corporate citizens of such foreign jurisdiction in order for such Restricted Subsidiary to transact business in such foreign jurisdiction, provided that Comstock, directly or indirectly, owns the remaining Capital Stock or ownership interest in such Restricted Subsidiary and, by contract or otherwise, controls the management and business of such Restricted Subsidiary and derives the economic benefits of ownership of such Restricted Subsidiary to substantially the same extent as if such Subsidiary were a wholly owned subsidiary.

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BOOK-ENTRY, DELIVERY AND FORM

We have obtained the information in this section concerning DTC, Clearstream, Luxembourg and Euroclear, and their book-entry systems and procedures from sources that we believe to be reliable. We take no responsibility for an accurate portrayal of this information. In addition, the description of the clearing systems in this section reflects our understanding of the rules and procedures of DTC, Clearstream, Luxembourg and Euroclear as they are currently in effect. Those systems could change their rules and procedures at any time.

The new notes will initially be represented by one or more fully registered global notes. Each such global note will be deposited with, or on behalf of, DTC or any successor thereto and registered in the name of Cede & Co. (DTC's nominee). You may hold your interests in the global notes in the United States through DTC, or in Europe through Clearstream, Luxembourg or Euroclear, either as a participant in such systems or indirectly through organizations which are participants in such systems. Clearstream, Luxembourg and Euroclear will hold interests in the global notes on behalf of their respective participating organizations or customers through customers' securities accounts in Clearstream, Luxembourg's or Euroclear's names on the books of their respective depositaries, which in turn will hold those positions in customers' securities accounts in the depositaries' names on the books of DTC. Citibank, N.A. acts as depositary for Clearstream, Luxembourg and JPMorgan Chase Bank, N.A. acts as depositary for Euroclear.

So long as DTC or its nominee is the registered owner of the global securities representing the notes, DTC or such nominee will be considered the sole owner and holder of the notes for all purposes of the notes and the indenture. Except as provided below, owners of beneficial interests in the notes will not be entitled to have the notes registered in their names, will not receive or be entitled to receive physical delivery of the notes in definitive form and will not be considered the owners or holders of the notes under the indenture, including for purposes of receiving any reports delivered by us or the trustee pursuant to the indenture. Accordingly, each person owning a beneficial interest in a note must rely on the procedures of DTC or its nominee and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, in order to exercise any rights of a holder of notes.

Unless and until we issue the notes in fully certificated, registered form under the limited circumstances described below under the heading "Certificated Notes":

you will not be entitled to receive a certificate representing your interest in the notes;

all references in this prospectus supplement to actions by holders will refer to actions taken by DTC upon instructions from its direct participants; and

all references in this prospectus supplement to payments and notices to holders will refer to payments and notices to DTC or Cede & Co., as the registered holder of the notes, for distribution to you in accordance with DTC procedures.

The Depository Trust Company

DTC acts as securities depository for the notes. The new notes will be issued as fully registered notes registered in the name of Cede & Co. DTC is:

a limited-purpose trust company organized under the New York Banking Law;

a banking organization under the New York Banking Law;

a member of the Federal Reserve System;

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- a clearing corporation under the New York Uniform Commercial Code; and
- a clearing agency registered under the provisions of Section 17A of the Exchange Act.

DTC holds securities that its direct participants deposit with DTC. DTC facilitates the post-trade settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in direct participants' accounts, thereby eliminating the need for physical movement of securities certificates.

Direct participants of DTC include both U.S. and non-U.S. securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct participants. Indirect participants of DTC, such as U.S. and non-U.S. securities brokers and dealers, banks and trust companies, can also access the DTC system if they maintain a custodial relationship with a direct participant.

Purchases of notes under DTC's system must be made by or through direct participants, which will receive a credit for the notes on DTC's records. The ownership interest of each beneficial owner is in turn to be recorded on the records of direct participants and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct participants or indirect participants through which such beneficial owners entered into the transaction. Transfers of ownership interests in the notes are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in notes, except as provided below in Certificated Notes.

To facilitate subsequent transfers, all notes deposited with DTC are registered in the name of DTC's nominee, Cede & Co., or such other nominee as may be requested by DTC. The deposit of notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes. DTC's records reflect only the identity of the direct participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Book-Entry Format

Under the book-entry format, the paying agent will pay interest or principal payments to Cede & Co., as nominee of DTC. DTC will forward the payment to the direct participants, who will then forward the payment to the indirect participants (including Clearstream, Luxembourg or Euroclear) or to you as the beneficial owner. You may experience some delay in receiving your payments under this system. None of us, any subsidiary guarantor, the trustee under the indenture or any paying agent has any direct responsibility or liability for the payment of principal or interest on the notes to owners of beneficial interests in the notes.

DTC is required to make book-entry transfers on behalf of its direct participants and is required to receive and transmit payments of principal, premium, if any, and interest on the notes. Any direct participant or indirect participant with which you have an account is similarly required to make book-entry transfers and to receive and transmit payments with respect to the notes on your behalf. We, the subsidiary guarantors and the trustee under the indenture have no responsibility for any aspect of the actions of DTC, Clearstream, Luxembourg or Euroclear or any

of their direct or indirect participants. In addition, we, the subsidiary

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guarantors and the trustee under the indenture have no responsibility or liability for any aspect of the records kept by DTC, Clearstream, Luxembourg, Euroclear or any of their direct or indirect participants relating to or payments made on account of beneficial ownership interests in the notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. We also do not supervise these systems in any way.

The trustee will not recognize you as a holder under the indenture, and you can only exercise the rights of a holder indirectly through DTC and its direct participants. DTC has advised us that it will only take action regarding a note if one or more of the direct participants to whom the note is credited direct DTC to take such action and only in respect of the portion of the aggregate principal amount of the notes as to which that participant or participants has or have given that direction. DTC can only act on behalf of its direct participants. Your ability to pledge notes to non-direct participants, and to take other actions, may be limited because you will not possess a physical certificate that represents your notes.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the notes unless authorized by a direct participant in accordance with DTC's procedures. Under its usual procedures, DTC will mail an omnibus proxy to its direct participant as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the notes are credited on the record date (identified in a listing attached to the omnibus proxy).

Clearstream, Luxembourg or Euroclear will credit payments to the cash accounts of Clearstream, Luxembourg customers or Euroclear participants in accordance with the relevant system's rules and procedures, to the extent received by its depository. These payments will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream, Luxembourg or Euroclear, as the case may be, will take any other action permitted to be taken by a holder under the indenture on behalf of a Clearstream, Luxembourg customer or Euroclear participant only in accordance with its relevant rules and procedures and subject to its depository's ability to effect those actions on its behalf through DTC.

DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the notes among participants of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform those procedures, and they may discontinue those procedures at any time.

Transfers Within and Among Book-Entry Systems

Transfers between DTC's direct participants will occur in accordance with DTC rules. Transfers between Clearstream, Luxembourg customers and Euroclear participants will occur in accordance with their respective applicable rules and operating procedures.

DTC will effect cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg customers or Euroclear participants, on the other hand, in accordance with DTC rules on behalf of the relevant European international clearing system by its depository. However, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in that system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, instruct its depository to effect final settlement on its behalf by delivering or receiving securities in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream, Luxembourg customers and Euroclear participants may not deliver instructions directly to the depositories.

Because of time-zone differences, credits of securities received in Clearstream, Luxembourg or Euroclear resulting from a transaction with a DTC direct participant will be made during the subsequent securities settlement processing, dated the business day following the DTC settlement date. Those credits or

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any transactions in those securities settled during that processing will be reported to the relevant Clearstream, Luxembourg customer or Euroclear participant on that business day. Cash received in Clearstream, Luxembourg or Euroclear as a result of sales of securities by or through a Clearstream, Luxembourg customer or a Euroclear participant to a DTC direct participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream, Luxembourg or Euroclear cash amount only as of the business day following settlement in DTC.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of debt securities among their respective participants, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

Certificated Notes

Unless and until they are exchanged, in whole or in part, for notes in definitive form in accordance with the terms of the notes, the notes may not be transferred except (1) as a whole by DTC to a nominee of DTC or (2) by a nominee of DTC to DTC or another nominee of DTC or (3) by DTC or any such nominee to a successor of DTC or a nominee of such successor.

We will issue notes to you or your nominees, in fully certificated registered form, rather than to DTC or its nominees, only if:

we advise the trustee in writing that DTC is no longer willing or able to discharge its responsibilities properly or that DTC is no longer a registered clearing agency under the Exchange Act, and we have not appointed a qualified successor within 90 days;

an event of default has occurred and is continuing under the indenture and DTC has notified us and the trustee of its desire to exchange the global notes for certificated notes; or

subject to DTC's rules, we, at our option, elect to terminate the book-entry system through DTC.

If any of the three above events occurs, DTC is required to notify all direct participants that notes in fully certificated registered form are available through DTC. DTC will then surrender the global note representing the notes along with instructions for re-registration. We will re-issue the notes in fully certificated registered form and will recognize the registered holders of the certificated notes as holders under the indenture.

Unless and until we issue the notes in fully certificated, registered form, (1) you will not be entitled to receive a certificate representing your interest in the notes; (2) all references in this prospectus supplement to actions by holders will refer to actions taken by the depositary upon instructions from its direct participants; and (3) all references in this prospectus supplement to payments and notices to holders will refer to payments and notices to the depositary or its nominee, as the registered holder of the notes, for distribution to you in accordance with its policies and procedures.

Same Day Settlement and Payment

We will make payments in respect of the notes represented by the global notes (including principal, premium, if any, and interest) by wire transfer of immediately available funds to the accounts specified by DTC or its nominee. We will make all payments of principal, interest and premium, if any, with respect to certificated notes by wire transfer of immediately available funds to the accounts specified by the holders of the certificated notes or, if no such account is specified, by mailing a check to each such holder's registered address. The notes represented by the global notes are eligible to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in

such notes is, therefore, required by DTC to

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be settled in immediately available funds. We expect that secondary trading in any certificated notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Clearstream, Luxembourg customer or Euroclear participant purchasing an interest in a global note from another customer or participant will be credited, and any such crediting will be reported to the relevant Clearstream, Luxembourg customer or Euroclear participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised us that cash received in Clearstream, Luxembourg or Euroclear as a result of sales of interests in a global note by or through a Clearstream, Luxembourg customer or Euroclear participant to another customer or participant will be received with value on the settlement date of DTC but will be available in the relevant Clearstream, Luxembourg or Euroclear cash account only as of the business day for Euroclear or Clearstream, Luxembourg following DTC's settlement date.

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CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain material United States federal income tax consequences of the acquisition, ownership and disposition of the notes offered hereby, but does not purport to be a complete analysis of all potential tax considerations relating to the notes. The federal income tax considerations set forth below are based upon provisions of the Internal Revenue Code of 1986, as amended (the Code), applicable Treasury Regulations, judicial authority, and current administrative rulings and pronouncements of the Internal Revenue Service (IRS) currently in effect. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS has been, or will be, sought on the issues discussed in this summary. Legislative, judicial, or administrative changes or interpretations may be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may or may not be retroactive and could affect the tax consequences discussed below.

The summary does not address all potential federal tax considerations, such as estate and gift tax considerations, that may be relevant to particular holders of notes and does not address foreign, state, local or other tax consequences. This summary does not address the federal income tax consequences to taxpayers who may be subject to special tax treatment, including, without limitation:

holders subject to the alternative minimum tax;

banks, insurance companies, or other financial institutions;

regulated investment companies;

small business investment companies;

real estate investment trusts;

certain U.S. expatriates;

dealers in securities or currencies;

broker-dealers;

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;

holders whose functional currency is not the United States dollar;

tax-exempt organizations;

partnerships or other entities classified as partnerships for United States federal income tax purposes;

persons that hold the notes in a tax-deferred or tax-advantaged account; or

persons that hold the notes as part of a position in a straddle, or as part of a hedging, conversion, or other integrated investment transaction.

This summary is limited to holders that are initial purchasers of the notes at their original issue price and that hold the notes as capital assets within the meaning of Section 1221 of the Code.

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If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership acquiring the notes, you are urged to consult your own tax advisor about the U.S. federal income tax consequences of acquiring, holding and disposing of the notes.

THIS SUMMARY OF MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. YOU ARE URGED TO CONSULT YOUR TAX ADVISOR WITH RESPECT TO THE APPLICATION OF UNITED STATES FEDERAL INCOME TAX LAWS WITH RESPECT TO YOUR PARTICULAR SITUATION AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER THE UNITED STATES FEDERAL ESTATE OR GIFT TAX RULES OR UNDER THE LAWS OF ANY STATE, LOCAL, FOREIGN OR OTHER TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY AS IT RELATES TO YOUR PURCHASE, HOLDING AND DISPOSITION OF THE NOTES.

In certain circumstances (see Description of the Notes Redemption Optional Redemption and Description of the Notes Certain Covenants Change of Control), we may elect to or be obligated to pay amounts on the notes that are in excess of stated interest or principal on the notes. We do not intend to treat the possibility of paying such additional amounts as causing the notes to be treated as contingent payment debt instruments. Our treatment is binding on you unless you disclose your contrary position in the manner required by the applicable Treasury Regulations. Our determination is not binding on the IRS, and if the IRS successfully challenges this determination, you could be required to treat any gain recognized on the sale or disposition of a note as ordinary income, and the timing and amount of income inclusions could be different from the consequences discussed herein. The remainder of this discussion assumes that the notes will not be treated as contingent payment debt instruments. Investors should consult their own tax advisors regarding the possible application of the contingent payment debt instrument rules to the notes.

Consequences to United States Holders

United States Holders

The discussion in this section will apply to you only if you are a United States holder of a note. A United States holder is a beneficial owner of the notes who or which is:

an individual who is a citizen or resident, as defined in Section 7701(b) of the Code, of the United States;

a corporation, including any entity treated as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or political subdivision thereof, or the District of Columbia;

an estate if its income is subject to United States federal income taxation regardless of its source; or

a trust if (a) a United States court can exercise primary supervision over its administration and one or more United States persons have the authority to control all of its substantial decisions, or (b) such trust has in effect a valid election to be treated as a domestic trust for United States federal income tax purposes.

Interest on the Notes

All of the notes bear interest at a fixed rate, and we do not intend to issue the notes at a discount that will exceed a de minimis amount of original issue discount. Accordingly, if you are a United States holder,

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interest on a note will generally be taxable to you as ordinary income at the time it accrues or is received in accordance with your method of accounting for United States federal income tax purposes. If you are a United States holder who uses the accrual method of accounting for United States federal income tax purposes, stated interest on a note will be taxable to you as ordinary income at the time it accrues. If you are a United States holder who uses the cash receipts and disbursements method of accounting for United States federal income tax purposes, stated interest on a note will be taxable to you as ordinary income at the time it is actually or constructively received.

Sale, Exchange or Retirement of the Notes

If you are a United States holder, you generally will recognize taxable gain or loss upon the sale, exchange, retirement at maturity or other disposition of a note in an amount equal to the difference between the amount of cash plus the fair market value of all property received on such disposition (except to the extent such cash or property is attributable to accrued interest, which is taxable as ordinary income to the extent not previously included in income) and your adjusted tax basis in the note. In general, your adjusted tax basis in a note will be equal the price paid for the note. In general, gain or loss recognized on the sale, exchange, retirement or other disposition of a note will be capital gain or loss, and will generally be long-term capital gain or loss if at the time of sale, exchange or retirement, the note has been held for more than one year. The deductibility of capital losses may be subject to limitation.

Information Reporting and Back-Up Withholding

You may be subject to back-up withholding (currently at a rate of twenty-eight percent (28%) but scheduled to increase to thirty-one percent (31%) for payments made after December 31, 2012) with respect to certain reportable payments, including interest payments, and, under certain circumstances, principal payments on the notes and payments of the proceeds of the sale of notes, if you, among other things

fail to provide us or our payment agent with an IRS Form W-9 or substitute Form W-9 which is signed under penalties of perjury, and in which you furnish a social security number or other taxpayer identification number, within a reasonable time after the request for such Form W-9;

furnish an incorrect taxpayer identification number; or

fail to report interest properly.

Back-up withholding is not an additional tax. Any amount withheld from a payment to you under the back-up withholding rules is creditable against your income tax liability, if any, and a refund may be obtained of any amounts withheld in excess of your actual U.S. federal income tax liability, provided that you file the appropriate forms and/or returns with the IRS. Back-up withholding does not apply, however, if you properly establish your eligibility for an exemption from back-up withholding. Information reporting generally will apply to such reportable payments unless you are an exempt recipient, such as a corporation.

New Legislation Relating to Net Investment Income

For taxable years beginning after December 31, 2012, newly-enacted legislation is scheduled to impose a 3.8% tax on the net investment income of certain United States individuals and on the undistributed net investment income of certain estates and trusts. Among other items, net investment income generally includes interest and certain net gain from the disposition of property, less certain deductions.

Prospective holders should consult their tax advisors with respect to the tax consequences of the new legislation described above.

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Consequences to Non-United States Holders

Non-United States Holders

The discussion in this section will apply to you only if you are a Non-United States holder of a note. A Non-United States holder is a beneficial owner of the notes that is an individual, corporation, estate or trust and that is not a United States holder as defined in Consequences to United States Holders United States Holders above.

Interest Income

If you are a Non-United States holder, interest paid or accrued on your note will not be subject to United States federal income tax or withholding tax if the interest is not effectively connected with the conduct of a trade or business within the United States by you (and attributable to a permanent establishment maintained by you in the United States, if a tax treaty applies) and each of the following conditions are met:

you do not actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock;

you are not a controlled foreign corporation that is related to us through stock ownership;

you are not a bank whose receipt of interest on a note is described in Section 881(c)(3)(A) of the Code; and

(A) you certify, under penalties of perjury, that you are not a United States person (which certification may be made on IRS Form W-8BEN or substitute form) and provide us with your name and address or (B) you are a securities clearing organization, bank, or other financial institution that holds customers securities in the ordinary course of its trade or business and you certify, under penalties of perjury, you have received the certification and information described in (A) above from the Non-United States holder and you furnish us with a copy thereof.

Special certification rules apply to foreign partnerships, estates and trusts, and in certain circumstances, certifications as to foreign status of partners, trust owners, or beneficiaries may be required to be provided to our paying agent or to us. In addition, special rules apply to payments made through a qualified intermediary.

Payments of interest that do not meet the above requirements will generally be subject to a United States federal income tax of 30% (or such lower rate provided by an applicable income tax treaty if the Non-United States holder establishes that it qualifies to receive benefits of such treaty), collected by means of withholding, except to the extent provided below.

If you are a Non-United States holder engaged in a trade or business in the United States, and if interest on the note (or gain realized on its sale, exchange or other disposition) is effectively connected with the conduct of such trade or business (and, if a tax treaty applies, is attributable to a permanent establishment maintained by you in the United States), you will generally be subject to United States income tax on such effectively connected income in the same manner as if you were a United States holder. In addition, if you are a foreign corporation, you may be subject to a 30% branch profits tax (unless reduced or eliminated by an applicable tax treaty) on your effectively connected earnings and profits for the taxable year, subject to certain adjustments. You will generally be exempt from withholding tax if you provide to the withholding agent a properly executed IRS Form W-8ECI to claim an exemption from withholding tax.

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Non-United States holders should consult their tax advisors regarding any applicable income tax treaties, which may provide for an exemption from, or reduced rate of, U.S. federal income tax withholding or branch profits tax, or other rules different from those described above.

Gain on Disposition

If you are a Non-United States holder, you will generally not be subject to United States federal income tax on gain recognized on a sale, redemption or other disposition of a note (except to the extent the disposition proceeds represent accrued interest and the exemption described above with respect to interest is not applicable and the interest is not exempt from United States federal income taxation under an applicable treaty) unless (i) the gain is effectively connected with the conduct of a trade or business within the United States by you (and is attributable to a permanent establishment maintained in the United States, if a tax treaty applies), in which case you generally will be subject to United States income tax on such gain in the same manner as a United States holder and may also be subject to a branch profits tax of 30% (or lower rate provided by an applicable tax treaty) if you are a corporation, or (ii) you are a nonresident alien individual who is present in the United States for 183 or more days during the taxable year and certain other conditions are met, in which case you will generally be subject to a 30% United States federal income tax on any gain recognized (net of certain United States source net capital loss).

Information Reporting and Backup Withholding

Payments of interest to Non-United States holders with respect to which the requisite certification, as described above, has been received (or for which an exemption has otherwise been established) generally will not be subject to back-up withholding. This exemption does not apply if we or our payment agent has actual knowledge that you are a United States person (or that the conditions of any such exemption are not in fact satisfied). Information reporting (on Form 1042-S) will generally apply to payments of interest even if certification is provided and the interest is exempt from the 30% United States federal withholding tax. Copies of these information returns may also be made available to the tax authorities of the country in which you reside under the provisions of a specific treaty or agreement.

Neither information reporting nor backup withholding generally will apply to a payment of the proceeds of a disposition of the notes which is effected by or through the foreign office of a foreign broker so long as the foreign broker does not have certain types of specified relationships to the United States. Information reporting and backup withholding generally will apply to a payment of the proceeds of a disposition of the notes which is effected by or through a United States office of any broker, unless the broker can reliably associate the payment with a Form W-8BEN or other documentation that establishes that the person is the foreign beneficial owner of the payment. Information reporting generally will also apply to a payment of the proceeds of a disposition of the notes which is effected through a foreign office of a United States broker or a foreign broker with certain types of specified relationships to the United States, unless the broker can reliably associate the payment with a Form W-8BEN or other documentation that establishes that the person is the foreign beneficial owner of the payment. Back-up withholding is not an additional tax. Any amount withheld from a payment to you under the back-up withholding rules is creditable against your actual U.S. federal income tax liability, if any, and a refund may be obtained of any amounts withheld in excess of your actual U.S. federal income tax liability, provided that you file the appropriate forms and/or returns with the IRS.

Table of Contents**UNDERWRITING**

Merrill Lynch, Pierce, Fenner & Smith, BMO Capital Markets Corp. and J.P. Morgan Securities LLC are acting as representatives of each of the underwriters named below. Subject to the terms and conditions set forth in the underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the principal amount of notes set forth opposite its name below.

<u>Underwriter</u>	<u>Principal Amount of Notes</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	\$ 126,000,000
BMO Capital Markets Corp.	45,000,000
J.P. Morgan Securities LLC	37,500,000
BBVA Securities Inc.	7,500,000
BNP Paribas Securities Corp.	9,000,000
Capital One Southcoast, Inc.	9,000,000
Comerica Securities, Inc.	9,000,000
Lloyds Securities Inc.	9,000,000
Mitsubishi UFJ Securities (USA), Inc.	9,000,000
Morgan Keegan & Company, Inc.	9,000,000
Natixis Securities North America Inc.	7,500,000
Scotia Capital (USA) Inc.	7,500,000
SunTrust Robinson Humphrey, Inc.	7,500,000
U.S. Bancorp Investments, Inc.	7,500,000
Total	\$ 300,000,000

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the notes sold under the underwriting agreement if any of these notes are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the notes, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us that the underwriters propose initially to offer the notes to the public at the public offering price set forth on the cover page of this prospectus supplement. After the initial offering, the public offering price or any other term of the offering may be changed.

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The expenses of the offering, not including the underwriting discount, are estimated at \$0.5 million and are payable by us.

New Issue of Notes

The notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the notes on any national securities exchange or for inclusion of the notes on any automated dealer quotation system. We have been advised by the underwriters that they presently intend to make a market in the notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the notes or that an active public market for the notes will develop. If an active public trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Settlement

We expect that delivery of the notes will be made to investors on or about March 14, 2011, which will be the tenth business day following the date of this prospectus supplement (such settlement being referred to as T+10). Under Rule 15(c)6-1 under the Securities Exchange Act of 1934, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes prior to the delivery of the notes hereunder will be required, by virtue of the fact that the notes initially settle in T+10, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes prior to their date of delivery hereunder should consult their advisors.

No Sales of Similar Securities

We have agreed that we will not, for a period of 60 days after the date of this prospectus supplement, without first obtaining the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated, directly or indirectly, issue, sell, offer to contract or grant any option to sell, pledge, transfer or otherwise dispose of, any debt securities or securities exchangeable for or convertible into debt securities, except for the notes sold to the underwriters pursuant to the underwriting agreement.

Short Positions

In connection with the offering, the underwriters may purchase and sell the notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater principal amount of notes than they are required to purchase in the offering. The underwriters must close out any short position by purchasing notes in the open market. A short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the notes or preventing or retarding a decline in the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition,

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neither we nor any of the underwriters make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

Affiliates of each of the underwriters listed in the table above are lenders and/or agents under our bank credit facility and as such are entitled to be repaid with the net proceeds of the offering that are used to repay the bank credit facility. Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Notice To Prospective Investors In The European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), including each Relevant Member State that has implemented the 2010 PD Amending Directive with regard to persons to whom an offer of securities is addressed and the denomination per unit of the offer of securities (each, an Early Implementing Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), no offer of securities will be made to the public in that Relevant Member State (other than offers (the Permitted Public Offers) where a prospectus will be published in relation to the securities that has been approved by the competent authority in a Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive), except that with effect from and including that Relevant Implementation Date, offers of securities may be made to the public in that Relevant Member State at any time:

- A. to qualified investors as defined in the Prospectus Directive, including:
 - (a) (in the case of Relevant Member States other than Early Implementing Member States), legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities, or any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than 43.0 million and (iii) an annual turnover of more than 50.0 million as shown in its last annual or consolidated accounts; or
 - (b) (in the case of Early Implementing Member States), persons or entities that are described in points (1) to (4) of Section I of Annex II to Directive 2004/39/EC, and those who are treated on request as professional clients in accordance with Annex II to Directive 2004/39/EC, or recognized as eligible counterparties in accordance with Article 24 of Directive 2004/39/EC unless they have requested that they be treated as non-professional clients; or

B.

to fewer than 100 (or, in the case of Early Implementing Member States, 150) natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted in

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the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or

- C. in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of securities shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or of a supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State (other than a Relevant Member State where there is a Permitted Public Offer) who initially acquires any securities or to whom any offer is made will be deemed to have represented, acknowledged and agreed that (A) it is a qualified investor, and (B) in the case of any securities acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (x) the securities acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors as defined in the Prospectus Directive, or in circumstances in which the prior consent of the Subscribers has been given to the offer or resale, or (y) where securities have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors as defined in the Prospectus Directive, the offer of those securities to it is not treated under the Prospectus Directive as having been made to such persons.

For the purpose of the above provisions, the expression "an offer to the public" in relation to any securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer of any securities to be offered so as to enable an investor to decide to purchase any securities, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71 EC (including the 2010 PD Amending Directive, in the case of Early Implementing Member States) and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Notice to Prospective Investors in Switzerland

This document, as well as any other material relating to the notes which are the subject of the offering contemplated by this prospectus supplement do not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the Notes will not be listed on the SIX Swiss Exchange. Therefore, the documents relating to the notes, including, but not limited to, this document, may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the Notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the Notes with a view to distribution. Any such investors will be individually approached by the underwriters from time to time.

Notice to Prospective Investors in the Dubai International Financial Centre

This document relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (DFSA). This document is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this document nor taken steps to verify the information set forth herein and has no responsibility for the document. The securities to which this document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities. If you do not understand the contents of this document you should consult an authorized financial advisor.

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Notice to Prospective Investors in Hong Kong

This prospectus has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. The securities will not be offered or sold in Hong Kong other than (a) to professional investors as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the securities which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) has been issued or will be issued in Hong Kong or elsewhere other than with respect to securities which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Notice to Prospective Investors in Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the securities may not be circulated or distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act (Chapter 289) (the SFA), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Where the securities are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, then securities, debentures and units of securities and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the securities under Section 275 except: (i) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (ii) where no consideration is given for the transfer; or (iii) by operation of law.

Notice to Prospective Investors in Japan

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, will not be offered or sold, directly or indirectly, in Japan, or for the benefit of any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person, except in compliance with all applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, Japanese Person shall mean any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

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Notice to Prospective Investors in Australia

No prospectus, disclosure document, offering material or advertisement in relation to the common shares has been lodged with the Australian Securities and Investments Commission or the Australian Stock Exchange Limited. Accordingly, a person may not (a) make, offer or invite applications for the issue, sale or purchase of common shares within, to or from Australia (including an offer or invitation which is received by a person in Australia) or (b) distribute or publish this prospectus or any other prospectus, disclosure document, offering material or advertisement relating to the common shares in Australia, unless (i) the minimum aggregate consideration payable by each offeree is the U.S. dollar equivalent of at least A\$500,000 (disregarding moneys lent by the offeror or its associates) or the offer otherwise does not require disclosure to investors in accordance with Part 6D.2 of the Corporations Act 2001 (CWLTH) of Australia; and (ii) such action complies with all applicable laws and regulations.

LEGAL MATTERS

Certain legal matters, including the validity of the notes offered hereby, will be passed upon for us by Locke Lord Bissell & Liddell LLP, Dallas, Texas. Certain legal matters will be passed upon for the underwriters by Baker Botts L.L.P., Dallas, Texas.

EXPERTS

Our consolidated financial statements as of December 31, 2009 and 2010 and for each of the three years in the period ended December 31, 2010, and the effectiveness of internal control over financial reporting as of December 31, 2010 included in our Annual Report (Form 10-K) for the year ended December 31, 2010, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2010 are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

Certain estimates of our oil and natural gas reserves and related information incorporated by reference in this prospectus have been derived from engineering reports prepared by Lee Keeling & Associates as of December 31, 2008, 2009 and 2010, and all such information has been so included on the authority of such firm as an expert regarding the matters contained in its reports.

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DEFINITIONS

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

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.

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.

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 principals 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.

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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.

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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.

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.

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PROSPECTUS

COMSTOCK RESOURCES, INC.

COMMON STOCK

PREFERRED STOCK

DEBT SECURITIES

WARRANTS

UNITS

GUARANTEES OF DEBT SECURITIES

We may offer and sell from time to time, in one or more offerings:

shares of common stock;

shares of preferred stock;

debt securities;

warrants; and/or

units consisting of combinations of any of the foregoing.

Our debt securities may be guaranteed by Comstock Oil & Gas, LP, Comstock Oil & Gas-Louisiana, LLC, Comstock Oil & Gas GP, LLC, Comstock Oil & Gas Investments, LLC, or Comstock Oil & Gas Holdings, Inc., each a wholly-owned subsidiary of Comstock Resources, Inc.

This prospectus provides you with a general description of these securities. Each time we will offer and sell them, we will provide their specific terms in a supplement to this prospectus. Such prospectus supplement may add, update, or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement, as well as all documents incorporated by reference in this prospectus and any accompanying prospectus supplement, carefully before you invest in our securities. This prospectus may not be used to offer and sell securities, unless accompanied by a prospectus supplement.

We may offer the securities directly, through agents designated from time to time, or to or through underwriters or dealers. If any agents or underwriters are involved in the sale of any of the securities, their names, and any applicable purchase price, fee, commission or discount arrangement between or among them, will be set forth, or will be calculable from the information set forth, in the applicable prospectus supplement. For more information on this topic, please see Plan of Distribution.

Our common stock is traded on the New York Stock Exchange under the symbol CRK.

Investing in securities offered by this prospectus involves a high degree of risk. Please see the Risk Factors sections beginning on page 4 of this prospectus, in the applicable prospectus supplement, and in our filings with the Securities and Exchange Commission.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is October 5, 2009

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, utilizing what is commonly referred to as a shelf registration process. Under this shelf registration process, we may sell any combination of the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we offer to sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering and the securities offered by us in that offering. The prospectus supplement may also add, update, or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and a prospectus supplement, you should rely on the information provided in the prospectus supplement. This prospectus does not contain all of the information included in the registration statement. The registration statement filed with the SEC includes exhibits that provide more details about the matters discussed in this prospectus. You should carefully read this prospectus, the related exhibits filed with the SEC, and any prospectus supplement, together with the additional information described below under the heading **Where You Can Find More Information**.

You should rely only on the information contained, or incorporated by reference, in this prospectus and in any accompanying prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer of the securities covered by this prospectus in any state where the offer is not permitted. You should assume that the information appearing in this prospectus, any prospectus supplement, and any other document incorporated by reference is accurate only as of the date on the front cover of the respective document. Our business, financial condition, results of operations, and prospects may have changed since those dates.

Under no circumstances should the delivery of this prospectus to you create any implication that the information contained in this prospectus is correct as of any time after the date of this prospectus.

Unless otherwise indicated, or unless the context otherwise requires, all references in this prospectus to Comstock, we, us, and our mean Comstock Resources, Inc. and our consolidated subsidiaries. In this prospectus, we sometimes refer to the shares of common stock, shares of preferred stock, debt securities, warrants, and units consisting of combinations of any of the foregoing collectively as the securities.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information contained in this prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements are identified by use of terms such as expect, estimate, anticipate, project, plan, intend, believe, may, will, would, and similar terms. All statements, other than statements of historical or current facts, included in this prospectus, are forward-looking statements, including statements 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 prospectus 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 prospectus and in any accompanying prospectus supplement;
- 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, the status of the financial markets, and competitive conditions;

our ability to retain key members of our senior management and other 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.

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COMSTOCK RESOURCES, INC.

We originally incorporated as a Delaware corporation in 1919 under the name *Comstock Tunnel and Drainage Company* for the primary purpose of conducting gold and silver mining operations in and around the Comstock Lode in Nevada. In 1983, we reincorporated under the laws of the State of Nevada. In November 1987, we changed our name to *Comstock Resources, Inc.*

Today, our common stock is listed and traded on the New York Stock Exchange under the symbol **CRK**, and we are engaged in the acquisition, development, production, and exploration of oil and natural gas. Our executive offices are located at 5300 Town and Country Boulevard, Suite 500, Frisco, Texas 75034, and our telephone number is (972) 668-8800.

In August 2008, we divested of our interests in our offshore oil and gas properties through the sale of our stake in **Boisd Arc Energy, Inc.** and, accordingly, the information contained herein pertains solely to our continuing onshore oil and gas operations. Such operations are concentrated in the East Texas/North Louisiana and South Texas regions.

Table of Contents**RISK FACTORS**

Investing in our securities involves a high degree of risk. Before deciding to purchase any of our securities, you should carefully consider the discussion of risks and uncertainties:

under the heading **Risk Factors** contained in our Annual Report on Form 10-K for the fiscal year that ended December 31, 2008, which is incorporated by reference in this prospectus;

under this heading or similar headings, such as **Quantitative and Qualitative Disclosures About Market Risk**, in our subsequently filed quarterly reports on Form 10-Q and annual reports on Form 10-K; and

in any other place in this prospectus, any applicable prospectus supplement as well as in any document that is incorporated by reference in this prospectus.

See the section entitled **Where You Can Find More Information** in this prospectus. The risks and uncertainties we discuss in the documents incorporated by reference in this prospectus are those we currently believe may materially affect Comstock. Additional risks and uncertainties not presently known to us, or that we currently believe are immaterial, also may materially and adversely affect our business, financial condition, and results of operations.

USE OF PROCEEDS

Unless otherwise specified in an accompanying prospectus supplement, we expect to use the net proceeds from the sale of the securities offered by this prospectus:

to refinance certain existing indebtedness;

to finance acquisitions and the development and exploration of our properties; and

for general corporate purposes.

We may invest funds not required immediately for these purposes in marketable securities and short-term investments. The precise amount and timing of the application of these proceeds will depend upon our funding requirements and the availability and cost of other funds.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratios of earnings to fixed charges on a consolidated basis for the periods shown. You should read these ratios in connection with our consolidated financial statements, including the notes to those statements, incorporated by reference into this prospectus.

	Years Ended December 31,					Six Months Ended	
	2004	2005	2006	2007	2008	June 30,	2009
Ratio of earnings to fixed charges	3.7x	5.8x	5.2x	3.3x	4.4x	9.5x	

The ratios were computed by dividing earnings by fixed charges. Earnings consist of income from continuing operations before income taxes, interest expense, and that portion of non-capitalized rental expense deemed to be the equivalent of interest, while fixed charges consists of interest expense, capitalized interest expense, preferred stock dividends, and that portion of non-capitalized rental expense deemed to be the equivalent of interest. For the six months ended June 30, 2009, earnings were inadequate to cover fixed charges. The coverage deficiency was \$26.2 million. See the Computation of Earnings to Fixed Charges Ratio that is filed as Exhibit 12.1 to the registration statement of which this prospectus is a part.

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 75,000,000 shares of common stock, par value \$0.50 per share and 5,000,000 shares of preferred stock, \$10.00 par value per share. At October 5, 2009 we had

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46,621,445 shares of common stock and no shares of preferred stock issued and outstanding. At that date, we also had options and warrants outstanding to purchase 453,620 shares of our common stock.

The following is a summary of the key terms and provisions of our equity securities. You should refer to the applicable provisions of our restated articles of incorporation, bylaws, the general corporate law of Nevada, and the documents we have incorporated by reference for a complete statement of the terms and rights of our capital stock.

Common Stock

Voting Rights. Each holder of common stock is entitled to one vote per share. Subject to the rights, if any, of the holders of any series of preferred stock pursuant to applicable law or the provision of the certificate of designation creating that series, all voting rights are vested in the holders of shares of common stock. Holders of shares of common stock have no right to cumulate votes in the election of directors, thus, the holders of a majority of the shares of common stock can elect all of the members of the board of directors standing for election.

Dividends. Dividends may be paid to the holders of common stock when, as, and if declared by the board of directors out of funds legally available for their payment, subject to the rights of the holders of preferred stock, if any. We have never declared a cash dividend on our common stock and intend to continue our policy of using retained earnings for expansion of our business.

Rights upon Liquidation. In the event of our voluntary or involuntary liquidation, dissolution, or winding up, the holders of common stock will be entitled to share equally, in proportion to the number of shares of common stock held by them, in any of our assets available for distribution after the payment in full of all debts and distributions and after the holders of all series of outstanding preferred stock, if any, have received their liquidation preferences in full.

Non-Assessable. All outstanding shares of common stock are fully paid and non-assessable. Any additional common stock we offer and issue under this prospectus, and any related prospectus supplement, will also be fully paid and non-assessable.

No Preemptive Rights. Holders of common stock are not entitled to preemptive purchase rights in future offerings of our common stock. Although our restated articles of incorporation do not specifically deny preemptive rights, pursuant to the general corporate law of Nevada, our stockholders do not have preemptive rights with respect to shares that are registered under Section 12 of the Exchange Act and our common stock is so registered.

Listing. Our outstanding shares of common stock are listed on the New York Stock Exchange (NYSE) under the symbol CRK. Any additional common stock we issue will also be listed on the NYSE and any other exchange on which our common stock will then be traded.

Preferred Stock

Our board of directors can, without approval of our stockholders, issue one or more series of preferred stock and determine the number of shares of each series and the rights, preferences, and limitations of each series. The following description of the terms of the preferred stock sets forth certain general terms and provisions of our authorized preferred stock. If we offer preferred stock, a more specific description will be filed with the SEC, and the designations and rights of such preferred stock will be described in a prospectus supplement, including the following terms:

the series, the number of shares offered, and the liquidation value of the preferred stock;

the price at which the preferred stock will be issued;

the dividend rate, the dates on which the dividends will be payable, and other terms relating to the payment of dividends on the preferred stock;

the liquidation preference of the preferred stock;

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the voting rights of the preferred stock;

whether the preferred stock is redeemable, or subject to a sinking fund, and the terms of any such redemption or sinking fund;

whether the preferred stock is convertible, or exchangeable for any other securities, and the terms of any such conversion or exchange; and

any additional rights, preferences, qualifications, limitations, and restrictions of the preferred stock.

The description of the terms of the preferred stock that will be set forth in an applicable prospectus supplement will not be complete and will be subject to and qualified in its entirety by reference to the certificate of designation relating to the applicable series of preferred stock. The registration statement, of which this prospectus forms a part, will include the certificate of designation as an exhibit or incorporate it by reference.

Undesignated preferred stock may enable our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a tender offer, proxy contest, merger, or otherwise and to thereby protect the continuity of our management. The issuance of shares of preferred stock may adversely affect the rights of the holders of our common stock. For example, any preferred stock issued may:

rank prior to our common stock as to dividend rights, liquidation preference, or both;

have full or limited voting rights; and

be convertible into shares of common stock.

As a result, the issuance of shares of preferred stock may:

discourage bids for our common stock; or

otherwise adversely affect the market price of our common stock or any then existing preferred stock.

Any preferred stock will, when issued, be fully paid and non-assessable.

Stockholders Rights Plan

On December 8, 2000, our board of directors adopted Comstock's Stockholders Rights Plan and we declared a dividend distribution of one preferred stock purchase right for each outstanding share of our common stock. Each purchase right entitles the registered holder to purchase from us one one-hundredth of a share of our series A junior participating preferred stock, \$10.00 par value per share, at an exercise price of \$50.00 per one one-hundredth of a share of preferred stock, subject to adjustment. The description and terms of the purchase rights are set forth in a rights agreement between us and American Stock Transfer and Trust Company, as rights agent.

The purchase rights are initially evidenced by the common stock certificates as no separate purchase rights certificates have been distributed. The purchase rights separate from our common stock and a distribution date will occur at the close of business on the earliest of:

the tenth business day following a public announcement that a person or group of affiliated or associated persons (Acquiring Person) has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of the outstanding shares of our common stock (Stock Acquisition Date);

the tenth business day (or such later date as may be determined by action of our board of directors) following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 20% or more of the outstanding shares of our common stock; or

the tenth business day after (i) our board of directors determined that any individual, firm, corporation, partnership, or other entity (alone or together with its affiliates and associates; collectively, an Adverse Person, if so determined and declared according to the following procedure) has become the beneficial owner of at least 10% of the shares of our common stock then outstanding, and (ii) a majority of our

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continuing directors who are not our officers, after reasonable inquiry and investigation (including consulting with such Adverse Person as such directors shall deem appropriate), determined that:

(a) such amount of beneficial ownership of our common stock is substantial; and

(b) such beneficial ownership by the Adverse Person is intended to cause (I) Comstock to repurchase the common stock beneficially owned by the Adverse Person; or (II) pressure on Comstock to take action, or enter into a transaction, intended to provide the Adverse Person with short-term financial gain, and that the best long-term interests of Comstock and Comstock's stockholders would not be served by taking such action, or entering into such transaction or series of transactions, at that time; or (III) or is reasonably likely to cause, a material adverse impact on Comstock.

The purchase rights are not exercisable until the distribution date outlined above and will expire at the close of business on December 18, 2010, unless earlier redeemed by us. If (i) a person becomes the beneficial owner of 20% or more of the then outstanding shares of our common stock (except (a) pursuant to certain offers for all outstanding shares of common stock approved by at least a majority of the continuing directors who are not our officers, or (b) solely due to a reduction in the number of shares of our common stock outstanding as a result of the repurchase of shares of common stock by us), or (ii) our board of directors determines that a person is an Adverse Person, each holder of a purchase right will thereafter have the right to receive, upon exercise, common stock (or, in certain circumstances, cash, property, or our other securities) having a value equal to two times the exercise price of the purchase right. Notwithstanding any of the foregoing, following the occurrence of either of the events set forth in this paragraph, all purchase rights that are, or (under certain circumstances specified in the rights agreement) were, beneficially owned by any Acquiring Person or Adverse Person will be null and void.

If at any time following the Stock Acquisition Date, (i) we are acquired in a merger or other business combination transaction in which we are not the surviving corporation, or in which we are the surviving corporation, but our common stock is changed or exchanged (other than a merger which follows an offer for all outstanding shares of common stock approved by at least a majority of the continuing directors who are not our officers), or (ii) more than 50% of our assets, cash flow or earning power is sold or transferred, each holder of a purchase right (except purchase rights which previously have been voided as set forth above) shall thereafter have the right to receive, upon exercise, common stock of the acquiring company, having a value equal to two times the exercise price of the purchase right.

At any time after the earlier to occur of (i) an Acquiring Person becoming such, or (ii) the date on which our board of directors declares an Adverse Person to be such, our board of directors may cause us to exchange the purchase rights (other than purchase rights owned by the Adverse Person or Acquiring Person, as the case may be, which will have become null and void), in whole or in part, at an exchange ratio of one share of common stock per purchase right (subject to adjustment). Notwithstanding the foregoing, no such exchange may be effected at any time after any person becomes the beneficial owner of 50% or more of our outstanding common stock.

The rights plan has certain anti-takeover effects including making it prohibitively expensive for a corporate raider to try to control or take us over unilaterally without negotiation with our board of directors. Although intended to preserve the best long-term value for our stockholders, the rights plan may make it more difficult for stockholders to benefit from certain transactions which are opposed by the continuing directors who are not our officers.

Anti-Takeover Provisions

In addition to the rights plan, our restated articles of incorporation and bylaws and the general corporate law of Nevada include certain provisions which may have the effect of delaying or deterring a change in control or in our management or encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to

negotiate with our board of directors rather than pursue non-negotiated takeover attempts. These provisions include a classified board of directors, authorized blank check preferred stock,

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restrictions on business combinations, and the availability of authorized but unissued common stock. Please see Preferred Stock above.

Our bylaws contain provisions dividing the board of directors into classes with only one class standing for election each year. A staggered board of directors makes it more difficult for stockholders to change the majority of the directors and instead promotes a continuity of existing management.

Combinations with Interested Stockholders Statute. Sections 78.411 to 78.444 of the Nevada Revised Statutes (N.R.S.), which apply to any Nevada corporation subject to the reporting requirements of Section 12 of the Exchange Act, including us, prohibits an interested stockholder from entering into a combination with the corporation for three years, unless certain conditions are met. A combination includes:

any merger of the corporation or a subsidiary of the corporation with an interested stockholder, or any other corporation which is or after the merger would be, an affiliate or associate of the interested stockholder;

any sale, lease, exchange, mortgage, pledge, transfer, or other disposition in one transaction, or a series of transactions, to or with an interested stockholder of assets:

(i) having an aggregate market value equal to 5% or more of the aggregate market value of the corporation's assets;

(ii) having an aggregate market value equal to 5% or more of the aggregate market value of all outstanding shares of the corporation; or

(iii) representing 10% or more of the earning power or net income of the corporation;

any issuance or transfer of shares of the corporation or its subsidiaries, to the interested stockholder, having an aggregate market value equal to 5% or more of the aggregate market value of all of the outstanding shares of the corporation;

the adoption of any plan, or proposal for the liquidation or dissolution of the corporation, proposed by the interested stockholder;

certain transactions which would result in increasing the proportionate share of shares of the corporation owned by the interested stockholder;

a recapitalization of the corporation; or

the receipt by an interested stockholder, except proportionately as a stockholder, of the benefits of any loans, advances, or other financial benefits provided by the corporation.

An interested stockholder is a person who:

directly or indirectly owns 10% or more of the voting power of the outstanding voting shares of the corporation; or

an affiliate or associate of the corporation, which at any time within three years before the date in question was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding shares of the corporation.

A corporation to which the Combinations with Interested Stockholders Statute applies may not engage in a combination within three years after the interested stockholder acquired its shares, unless the combination or the interested stockholder's acquisition of shares was approved by the board of directors before the interested stockholder acquired the shares. If this approval is not obtained, the combination may be consummated after the three year period expires if either (i)(a) the board of directors of the corporation approved, prior to such person becoming an interested stockholder, the combination or the purchase of shares by the interested stockholder, or (b) the combination is approved by the affirmative vote of holders of a majority of voting power not beneficially owned by the interested stockholder at a meeting called no earlier than three years after the date the interested stockholder became such, or (ii) the aggregate amount of cash and the market value of consideration other than cash to be received by holders of shares of common stock and

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holders of any other class or series of shares meets the minimum requirements set forth in the statute, and prior to the completion of the combination, except in limited circumstances, the interested stockholder has not become the beneficial owner of additional voting shares of the corporation.

Acquisition of Controlling Interest Statute. In addition, Nevada's Acquisition of Controlling Interest Statute, prohibits an acquiror, under certain circumstances, from voting shares of a target corporation's stock after crossing certain threshold ownership percentages, unless the acquiror obtains the approval of the target corporation's stockholders. Sections 78.378 to 78.3793 of the N.R.S. only apply to Nevada corporations with at least 200 stockholders, including at least 100 record stockholders who are Nevada residents, that do business directly or indirectly in Nevada and whose articles of incorporation or bylaws in effect 10 days following the acquisition of a controlling interest by an acquiror do not prohibit its application.

We do not intend to do business in Nevada within the meaning of the Acquisition of Controlling Interest Statute. Therefore, we believe it is unlikely that this statute will apply to us. The statute specifies three thresholds:

at least one-fifth but less than one-third;

at least one-third but less than a majority; and

a majority or more,

of the outstanding voting power. Once an acquiror crosses one of these thresholds, shares which it acquired in the transaction taking it over the threshold (or within ninety days preceding the date thereof) become control shares which could be deprived of the right to vote until a majority of the disinterested stockholders restore that right.

A special stockholders' meeting may be called at the request of the acquiror to consider the voting rights of the acquiror's shares. If the acquiror requests a special meeting and gives an undertaking to pay the expenses of said meeting, then the meeting must take place no earlier than 30 days (unless the acquiror requests that the meeting be held sooner) and no more than 50 days (unless the acquiror agrees to a later date) after the delivery by the acquiror to the corporation of an information statement which sets forth the range of voting power that the acquiror has acquired or proposes to acquire and certain other information concerning the acquiror and the proposed control share acquisition.

If no such request for a stockholders' meeting is made, consideration of the voting rights of the acquiror's shares must be taken at the next special or annual stockholders' meeting. If the stockholders fail to restore voting rights to the acquiror, or if the acquiror fails to timely deliver an information statement to the corporation, then the corporation may, if so provided in its articles or bylaws, call certain of the acquiror's shares for redemption at the average price paid for the control shares by the acquiror.

Our articles of incorporation and bylaws do not currently permit us to redeem an acquiror's shares under these circumstances. The Acquisition of Controlling Interest Statute also provides that in the event the stockholders restore full voting rights to a holder of control shares that owns a majority of the voting stock, then all other stockholders who do not vote in favor of restoring voting rights to the control shares may demand payment for the fair value of their shares (which is generally equal to the highest price paid by the acquiror in the transaction subjecting the acquiror to this statute).

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

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DESCRIPTION OF DEBT SECURITIES

This section describes the general terms and provisions of the debt securities which may be offered by us from time to time. The applicable prospectus supplement will describe the specific terms of the debt securities offered by such supplement.

We may issue debt securities either separately, or together with, or upon the conversion of, or in exchange for, other securities. The debt securities are to be either our senior obligations issued in one or more series and referred to herein as the senior debt securities, or our subordinated obligations issued in one or more series and referred to herein as the subordinated debt securities. The debt securities will be our general obligations. Each series of debt securities will be issued under an indenture agreement between us and an independent third party, usually a bank or trust company, known as a trustee, who will be legally obligated to carry out the terms of the indenture. We may issue the debt securities offered hereby under one or more indentures, as one or as separate series, as specified in the applicable prospectus supplement(s).

This summary of certain terms and provisions of the debt securities and indenture is based on the form of indenture for debt securities that we expect to enter into with The Bank of New York Mellon Trust Company, N.A. and is filed as Exhibit 4.4 to the registration statement of which this prospectus is a part; it is not complete. We expect that the indenture that we actually will enter into will be substantially in the form of such exhibit. If we refer to particular provisions of the indenture, the provisions, including definitions of certain terms, are incorporated by reference as a part of this summary. The indenture is subject to and governed by the Trust Indenture Act of 1939, as amended (the Trust Indenture Act).

The indenture that we actually will enter into will be filed as an exhibit to documents that we will file under the Exchange Act which are incorporated by reference into this prospectus. You should refer to that indenture, as supplemented, for a complete statement of the terms and rights of our debt securities.

General

The indenture may not limit the amount of debt securities which we may issue. We may issue debt securities up to an aggregate principal amount as we may authorize from time to time. The applicable prospectus supplement will describe the terms of any debt securities being offered, including:

the title and aggregate principal amount;

the date(s) when principal is payable;

the interest rate, if any, and the method for calculating the interest rate;

the interest payment dates and the record dates for the interest payments;

the places where the principal and interest will be payable;

any mandatory or optional redemption or repurchase terms or prepayment, conversion, sinking fund or exchangeability or convertibility provisions;

whether such debt securities will be senior debt securities or subordinated debt securities and, if subordinated debt securities, the subordination provisions and the applicable definition of senior indebtedness;

additional provisions, if any, relating to the defeasance and covenant defeasance of the debt securities;

if other than denominations of \$1,000 or multiples of \$1,000, the denominations the debt securities will be issued in;

whether the debt securities will be issued in the form of global securities, as discussed below, or certificates;

any applicable material federal tax consequences;

the dates on which premiums, if any, will be payable;

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our right, if any, to defer payment of interest and the maximum length of such deferral period;

any paying agents, transfer agents, registrars, or trustees (except as provided for herein);

any listing on a securities exchange;

if convertible into common stock or preferred stock, the terms on which such debt securities are convertible;

the terms, if any, of the transfer, mortgage, pledge, or assignment as security for any series of debt securities of any properties, assets, proceeds, securities, or other collateral, including whether certain provisions of the Trust Indenture Act are applicable, and any corresponding changes to provisions of the indenture as then in effect;

restrictions on the declaration of dividends, if any;

restrictions on issuing additional debt, if any;

material limitations or qualifications on the debt securities imposed by the rights of any of our other securities, if any;

the initial offering price; and

other specific terms, including covenants and any additions or changes to the events of default provided for with respect to the debt securities.

The terms of the debt securities of any series may differ, and without the consent of the holders of the debt securities of any series, we may reopen a previous series of debt securities and issue additional debt securities of such series or establish additional terms of such series, unless otherwise indicated in the applicable prospectus supplement.

Non-U.S. Currency

If the purchase price of any debt securities is payable in a currency other than United States dollars (U.S. dollars) or if principal of, or premium, if any, or interest, if any, on any of the debt securities is payable in any currency other than U.S. dollars, the specific terms with respect to such debt securities and such foreign currency will be specified in the applicable prospectus supplement.

Original Issue Discount Securities

Debt securities may be issued as original issue discount securities to be sold at a substantial discount below their principal amount. Original issue discount securities may include zero coupon securities that do not pay any cash interest for the entire term of the securities. In the event of an acceleration of the maturity of any original issue discount security, the amount payable to the holder thereof upon such acceleration will be determined in the manner described in the applicable prospectus supplement. Material federal income tax and other considerations applicable to original issue discount securities will be described in the applicable prospectus supplement.

Covenants

Under the indenture, we will be required to:

pay the principal, interest, and any premium on the debt securities when due;

maintain a place of payment;

deliver a report to the trustee at the end of each fiscal year, reviewing our obligations under the indenture; and

deposit sufficient funds with any paying agent on or before the due date for any principal, interest, or any premium.

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Any additional covenants will be described in the applicable prospectus supplement.

Registration, Transfer, Payment and Paying Agent

Unless otherwise indicated in a prospectus supplement, each series of debt securities will be issued in registered form only, without coupons, and such registered securities will be issued in denominations of \$1,000 or any integral multiple thereof.

Unless otherwise indicated in a prospectus supplement, Comstock will pay interest on the debt securities to the persons who are their registered holders at the close of business on a certain date preceding the respective interest payment date. We will not be required to register the transfer or exchange of debt securities of any series during a period beginning 15 days before the mailing of a notice of redemption of or an offer to repurchase debt securities of that series or 15 days before an interest payment date.

Unless otherwise indicated in the applicable prospectus supplement, holders must surrender the debt securities to a Paying Agent to collect principal payments. It is expected that initially, The Bank of New York Mellon Trust

Company, N.A. will act as paying agent. We may appoint and change any paying agent, registrar or co-registrar without notice. Comstock may act as paying agent, registrar or co-registrar.

Ranking of Debt Securities

The senior debt securities will be our unsubordinated obligations and will rank equally in right of payment with all other unsubordinated indebtedness of ours. The subordinated debt securities will be obligations of ours and will be subordinated in right of payment to all existing and future senior indebtedness. The prospectus supplement will describe the subordination provisions and set forth the definition of senior indebtedness applicable to the subordinated debt securities, and will set forth the approximate amount of such senior indebtedness outstanding as of a recent date.

Subsidiary Guarantors

One or more of our subsidiaries may fully and unconditionally guarantee any series of debt securities offered by this prospectus, as set forth in the applicable prospectus supplement. These subsidiaries are sometimes referred to in this prospectus as possible subsidiary guarantors. The term subsidiary guarantors with respect to a series of debt securities refers to our subsidiaries that guaranty such series of debt securities. The applicable prospectus supplement will name the subsidiary guarantors, if any, for that series of debt securities and will describe the terms of the guarantee by the subsidiary guarantors.

Global Securities

The debt securities of a series may be issued in whole or in part in the form of one or more global securities that will be deposited with, or on behalf of, a depository, such as the Depository Trust Company, identified in the prospectus supplement relating to such series. Global debt securities may be issued in either registered or bearer form and in either temporary or permanent form. Unless and until it is exchanged in whole or in part for individual certificates evidencing debt securities, a global debt security may not be transferred except as a whole:

by the depository to a nominee of such depository;

by a nominee of such depository to such depository or another nominee of such depository; or

by such depository, or any such nominee to a successor of such depository, or a nominee of such successor.

The specific terms of the depository arrangement with respect to a series of global debt securities and certain limitations and restrictions relating to a series of global bearer securities will be described in the applicable prospectus supplement.

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Outstanding Debt Securities

In determining whether the holders of the requisite principal amount of outstanding debt securities have given any authorization, demand, direction, notice, consent, or waiver under the indenture, the amount of outstanding debt securities will be calculated based on the following:

the portion of the principal amount of an original issue discount security that shall be deemed to be outstanding for such purposes shall be that portion of the principal amount thereof that could be declared to be due and payable upon a declaration of acceleration pursuant to the terms of such original issue discount security as of the date of such determination;

the principal amount of a debt security denominated in a currency other than U.S. dollars shall be the U.S. dollar equivalent, determined on the date of original issue of such debt security, of the principal amount of such debt security; and

any debt security owned by us or any obligor on such debt security or any affiliate of us or such other obligor shall be deemed not to be outstanding.

Redemption and Repurchase

The debt securities may be redeemable at our option, may be subject to mandatory redemption pursuant to a sinking fund or otherwise, or may be subject to repurchase by us at the option of the holders, in each case upon the terms, at the times and at the prices set forth in the applicable prospectus supplement.

Conversion and Exchange

The terms, if any, on which debt securities of any series are convertible into or exchangeable for common stock, preferred stock, or other debt securities will be set forth in the applicable prospectus supplement. Such terms of conversion or exchange may be either mandatory, at the option of the holders, or at our option.

Consolidation, Merger and Sale of Assets

The indenture generally will permit a consolidation or merger between us and another corporation, if the surviving corporation meets certain limitations and conditions. Subject to those conditions, the indenture may also permit the sale by us of all or substantially all of our property and assets. If this happens, the remaining or acquiring corporation shall assume all of our responsibilities and liabilities under the indenture including the payment of all amounts due on the debt securities and performance of the covenants in the indentures.

We are only permitted to consolidate or merge with or into any other corporation or sell all or substantially all of our assets according to the terms and conditions of the indentures, as indicated in the applicable prospectus supplement. The remaining or acquiring corporation will be substituted for us in the indentures with the same effect as if it had been an original party to the indenture. Thereafter, the successor corporation may exercise our rights and powers under any indenture, in our name or in its own name.

Events of Default

Unless otherwise specified in the applicable prospectus supplement, an event of default, as defined in the indenture and applicable to debt securities issued under such indenture, typically will occur with respect to the debt securities of any series under the indenture upon:

default for a period to be specified in the applicable prospectus supplement in payment of any interest with respect to any debt security of such series;

default in payment of principal or any premium with respect to any debt security of such series when due upon maturity, redemption, repurchase at the option of the holder, or otherwise;

default by us in the performance, or breach, of any other covenant or warranty in the indenture, which shall not have been remedied for a period to be specified in the applicable prospectus supplement after

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notice to us by the applicable trustee or the holders of not less than a fixed percentage in aggregate principal amount of the debt securities of all series issued under the indenture;

certain events of
bankruptcy,
insolvency, or
reorganization of
Comstock or our
subsidiary
guarantors; or

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77	44	57%	44	31	70%
Christopher and Banks	67	67	100%	173	173 100%
CJ Banks	60	60	100%	85	85 100%
Total Stores	518	353	68%	518	333 64%

(1) Comparable sales store counts as of January 30, 2016 and January 31, 2015, respectively.

Comparable sales measures vary across the retail industry. As a result, our comparable sales calculation is not necessarily comparable to similarly titled measures reported by other companies.

To supplement our comparable sales performance measure, we also monitor changes in net sales per store, net sales per gross square foot, gross profit per store, and gross margin per square foot for the entire store base.

Gross profit

Gross profit is equal to net sales minus merchandise, buying and occupancy costs.

Merchandise, buying and occupancy costs, exclusive of depreciation and amortization, measure whether we are appropriately optimizing the price of our merchandise and markdown utilization.

Merchandise, buying and occupancy costs include the cost of merchandise, markdowns, shrink, freight, buyer and distribution center salaries, buyer travel, rent and other occupancy-related costs, various merchandise design and development costs, miscellaneous merchandise expenses and other costs related to our distribution network.

Buying and occupancy costs related to stores mostly represent a fixed charge and, as a result, should not change significantly with changes in sales.

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Operating income

Operating income measures our ability to effectively manage operating costs relative to changes in sales volume. The key components of operating income include comparable sales, merchandise, buying and occupancy costs, selling, general, and administrative expenses and depreciation and amortization expenses.

Cash flow and liquidity

We closely manage our liquidity and access to capital resources. Our liquidity requirements depend on key variables, including our financial results, the level of investment necessary to support our business strategies, capital expenditures, and working capital management. Capital expenditures are a component of our cash flow which, to a large extent, we can adjust in response to economic and other changes in our business.

Results of Operations

The following table presents selected consolidated financial data for each of the past three fiscal years:

(dollars in thousands)	Fiscal 2015	Fiscal 2014	Fiscal 2013
Net sales	\$ 383,828	\$ 418,584	\$ 435,754
Merchandise, buying and occupancy costs	254,350	270,790	284,723
Gross profit	129,478	147,794	151,031
Other operating expenses:			
Selling, general and administrative	128,413	126,377	128,847
Depreciation and amortization	12,048	11,786	13,168
Impairment of store assets	281	216	140
Total other operating expenses	140,742	138,379	142,155
Operating (loss) income	(11,264)	9,415	8,876
Other expense	(115)	(191)	(191)
(Loss) income before income taxes	(11,379)	9,224	8,685
Income tax provision (benefit)	37,715	(37,902)	(5)
Net (loss) income	\$ (49,094)	\$ 47,126	\$ 8,690
Rate trends as a percentage of net sales	Fiscal 2015	Fiscal 2014	Fiscal 2013
Gross margin	33.7%	35.3%	34.7%
Selling, general, and administrative	33.5%	30.2%	29.6%
Depreciation and amortization	3.1%	2.8%	3.0%

Operating (loss) income	(2.9)%	2.2%	2.0%
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Fiscal 2015 Summary

- As of January 30, 2016, we have transitioned approximately 75% of our store base to the MPW format, including Outlet stores
- Comparable sales decreased 8.3%; first half of year comparable sales decreased 12.0% compared to second half comparable sales decreased 4.9% demonstrating sequential improvement in sales trends
- As a result of our recent operating losses and the uncertainty of future results, we recorded a \$37.5 million valuation allowance on our deferred tax assets in the fourth quarter. In contrast, in fiscal 2014, we released the vast majority of our valuation allowance which resulted in a \$41.3 million benefit to the income tax provision. Our fiscal 2015 results were significantly below expectations.
- Net loss aggregated to \$49.1 million, a \$1.33 loss per share, compared to net earnings of \$47.1 million, or diluted earnings per share of \$1.24, for the prior year. The net loss in fiscal 2015 was primarily attributable to changes in the valuation allowance on our deferred tax assets, coupled with lower sales year-over-year
- We generated \$5.4 million in operating cash flow in fiscal 2015, compared to \$19.0 million in fiscal 2014

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- As of January 30, 2016, we held \$34.5 million of cash, cash equivalents, and investments, compared to \$55.3 million at the end of fiscal 2014

Net Sales

			%
Net sales (in thousands):	Fiscal 2015	Fiscal 2014	Change
Net sales	\$ 383,828	\$ 418,584	(8.3)%

The components of the 8.3% net sales decrease in fiscal 2015 compared to fiscal 2014 were as follows:

	Fiscal 2015
Sales driver change components	
Number of transactions	(5.9)%
Units per transaction	(2.5)%
Average unit retail	0.1 %
Total sales driver change decrease	(8.3)%

	Fiscal 2015
Comparable sales	
Comparable sales	(8.3)%

To supplement our comparable sales measure, we also monitor changes in other store sales metrics as illustrated in the table below:

Store metrics	Fiscal 2015	
Net sales per store % change	(8.7)	%
Net sales per square foot % change	(12.1)	%

Sales transactions decreased in fiscal 2015 compared to fiscal 2014 due to the aggregate effects of general market weakness in women's apparel, a broad decline in mall traffic, lack of depth in key merchandise categories, and

unseasonable weather in certain regions. Average store count in fiscal 2015 was 526 stores compared to an average store count of 547 stores in fiscal 2014, a 3.8% decrease.

Sales were also negatively impacted by labor issues at West Coast ports which caused a disruption to our merchandise flow in late fiscal 2014 through the first part of fiscal 2015.

Store count, openings, closings, and square footage for our stores were as follows:

	Store Count				MPW	January 30, 2016	Avg Store Count	Square Footage (1)	
	January 31, 2015	Open	Close	Conversions				January 30, 2016	January 31, 2015
Stores by Format									
MPW	216	9	(13)	102	314	290	1,193	837	
Outlet	44	33	—	—	77	62	311	182	
Christopher and Banks	173	—	(5)	(101)	67	100	221	557	
CJ Banks	85	—	(1)	(24)	60	74	214	304	
Total Stores	518	42	(19)	(23)	518	526	1,939	1,880	

(1) Square footage presented in thousands

Gross Profit

	Fiscal 2015	Fiscal 2014	Change
Gross profit	\$ 129,478	\$ 147,794	\$ (18,316)
Gross margin rate as a percentage of net sales	33.7 %	35.3 %	(1.6) %

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To supplement our gross profit analysis, we also monitor changes in other store profit metrics as illustrated in the table below:

Store metrics	Fiscal 2015	
Gross profit per store % change	(14.5)	%
Gross profit per square foot % change	(17.6)	%

Gross profit rate decreased 160 basis points primarily due to the deleveraging of our occupancy costs and higher eCommerce transaction and distribution costs associated with the increase in eCommerce sales. Merchandise margins were relatively flat year-over-year as the benefit of improved initial mark-ups was mostly offset by increased markdowns to drive sales and higher freight costs due to the increase in eCommerce sales.

In fiscal 2014, we corrected an error which resulted in a cumulative increase to rent expense of approximately \$3.6 million. Excluding the correction, our gross margin rate in fiscal 2014 was 36.1%.

Selling, General, and Administrative (SG&A) Expenses

	Fiscal 2015	Fiscal 2014	Change
Selling, general, and administrative	\$ 128,413	\$ 126,377	\$ 2,036
SG&A rate as a percentage of net sales	33.5 %	30.2 %	3.3 %

SG&A expenses increased in fiscal 2015 as compared to fiscal 2014 primarily due to increased professional services of \$2.8 million, including \$1.3 million related to our in-depth business evaluation and \$1.0 million associated with shareholder activism costs, as well as higher eCommerce marketing spend, and higher corporate related expenses, including severance. The SG&A increase was partly offset by reduced store operational spend and lower store marketing expenditures. SG&A rate increased 330 basis points mostly due to deleveraging attributable to lower sales.

Depreciation and Amortization (D&A)

Depreciation and amortization	Fiscal 2015	Fiscal 2014	Change
Depreciation and amortization	\$ 12,048	\$ 11,786	\$ 262
D&A rate as a percentage of net sales	3.1	% 2.8	% 0.3 %

Depreciation and amortization expense increased primarily due to the effects of new stores and store conversions.

Impairment of Store Assets

Impairment of store assets	Fiscal 2015	Fiscal 2014	Change
Impairment of store assets	\$ 281	\$ 216	\$ 65

We recorded non-cash impairment charges related to long-lived assets held at a small number of store locations.

Operating (Loss) Income

Operating (loss) income	Fiscal 2015	Fiscal 2014	Change
Operating (loss) income	\$ (11,264)	\$ 9,415	\$ (20,679)
Operating (loss) income rate as a percentage of net sales	(2.9)	% 2.2	% (5.1) %

Our operating loss in fiscal 2015 compared to our operating income last year is mainly attributable to an 8.3% decrease in net sales and to a lesser extent, a \$2.0 million increase in SG&A.

Fiscal 2014 included the correction of an error which resulted in a cumulative increase to rent expense of approximately \$3.6 million.

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Other expense, net

	Fiscal 2015	Fiscal 2014	Change
Other expense, net	\$ (115)	\$ (191)	\$ 76
Other expense, net rate as a percentage of net sales	* %	* %	* %

*Calculated result is not meaningful

The decrease in other expense, net included interest expense of \$0.2 million, partly offset by interest income of \$0.1 million in fiscal 2015, compared to interest expense of \$0.3 million, partly offset by interest and other income of \$0.1 million, in fiscal 2014.

Income Tax Provision

	Fiscal 2015	Fiscal 2014	Change
Income taxes	\$ 37,715	\$ (37,902)	\$ 75,617
Income tax provision (benefit)	9.8 %	(9.1) %	18.9 %

As a result of our recent operating losses and the uncertainty of future results, we recorded a \$37.5 million valuation allowance on our deferred tax assets in the fourth quarter of fiscal 2015. Although we firmly believe we can return to a consistent net earnings position, the recent operating losses require us to acknowledge that there is risk to realizing the benefit of our deferred tax assets. In contrast, in fiscal 2014, the Company released the vast majority of our valuation allowance on our deferred tax assets based on two consecutive years of profitability, three years of cumulative positive earnings achieved in the fourth quarter of fiscal 2014 and the Company's forecast of continued profitability in fiscal 2015. The release of the valuation allowance resulted in a \$41.3 million benefit to the income tax provision in fiscal 2014.

Net earnings

	Fiscal 2015	Fiscal 2014	Change
Net (loss) income	\$ (49,094)	\$ 47,126	\$ (96,220)
Net (loss) income rate as a percentage of net sales	(12.8) %	11.3 %	(24.1) %

The \$96.2 million change in net earnings is primarily due to the establishment of a \$37.5 million valuation allowance on our deferred tax assets in fiscal 2015 (versus a release of \$41.3 million of our valuation allowance in fiscal 2014) and a \$20.7 million change in our operating results stemming from an 8.3% decrease in net sales and to a lesser extent, a \$2.0 million increase in SG&A.

Fiscal 2014 net income included the correction of an error which resulted in a cumulative after tax increase to rent expense of approximately \$2.2 million.

Fiscal 2014 Summary

Net Sales

			%
Net sales (in thousands):	Fiscal 2014	Fiscal 2013	Change
Net sales	\$ 418,584	\$ 435,754	(3.9) %

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The components of the 3.9% net sales decrease in fiscal 2014 compared to fiscal 2013 were as follows:

Sales driver change components	Fiscal 2014
Number of transactions	(8.8)%
Units per transaction	2.0 %
Average unit retail	3.2
Other	(0.3)%
Total sales driver change decrease	(3.9)%

Comparable sales	Fiscal 2014
Comparable sales	(2.0)%

To supplement our comparable sales measure, we also monitor changes in other store sales metrics as illustrated in the table below:

Store metrics	Fiscal 2014
Net sales per store % change	3.5%
Net sales per square foot % change	0.8%

Continued positive acceptance of our revamped merchandise assortment by our customers was evidenced by higher units per transaction and increased average selling price that resulted in a 5.1% increase in average dollar sale. These increases were more than offset by a decline in customer traffic levels in malls in general, as well as a sales decline specific to Christopher & Banks.

Gross profit	Fiscal 2014	Fiscal 2013	Change
Gross profit	\$ 147,794	\$ 151,031	\$ (3,237)
Gross margin rate as a percentage of net sales	35.3 %	34.7 %	0.6 %

To supplement our gross profit analysis, we also monitor changes in other store profit metrics as illustrated in the table below:

Store metrics	Fiscal 2014
Gross profit per store % change	4.5 %
Gross profit per square foot % change	1.8 %

Year-over-year gross profit improvements came from benefits in our initial mark-up, fewer permanent markdowns and promoting more items at specific price points, offset by deleveraging of our occupancy costs of 114 basis points. The deleveraging of occupancy costs were mitigated by our MPW strategy, which resulted in an increase in sales per square foot.

In connection with the preparation of our consolidated financial statements for the fiscal year ended January 31, 2015, we determined that our calculation of deferred rent expense was incorrect. We corrected the error in the fourth quarter of fiscal 2014, which resulted in a cumulative increase to rent expense of approximately \$3.6 million, and a reduction of net income of approximately \$2.2 million. There was no impact to net cash provided by operating activities. We concluded that this correction was immaterial to the related consolidated financial statements as a whole.

Selling, General, and Administrative (SG&A) Expenses

Selling, general, and administrative	Fiscal 2014	Fiscal 2013	Change
Selling, general, and administrative	\$ 126,377	\$ 128,847	\$ (2,470)
SG&A rate as a percentage of net sales	30.2 %	29.6 %	0.6 %

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Our SG&A expense decrease in fiscal 2014 compared to fiscal 2013 was attributable to store operational expense declines due to operating, on average, 8.3% fewer stores in fiscal 2014 compared to fiscal 2013, as well as reduced payroll-related costs due to declines in store traffic. Other store expense reductions include lower charge card fees, due to lower sales and higher PLCC usage, along with savings in store supplies. Marketing spend increased \$ 0.5 million, as we invested in new promotional initiatives to increase brand awareness to potential new customers. Corporate related expense savings in fiscal 2014 compared to fiscal 2013 included no accrual for the annual incentive plan, as the threshold level for the plan's performance metrics were not met, lower recruiting and training fees, and credits received on sales and use tax and workers compensation audits.

Depreciation and Amortization (D&A)

Depreciation and amortization	Fiscal 2014	Fiscal 2013	Change
Depreciation and amortization	\$ 11,786	\$ 13,168	\$ (1,382)
D&A rate as a percentage of net sales	2.8	% 3.0	% (0.2) %

The decrease in depreciation and amortization primarily resulted from operating approximately 8.3% fewer stores in fiscal 2014 compared to fiscal 2013. Also contributing to the expense decline were delays in IT - related projects, partially offset by accelerating depreciation on store closings.

Impairment of Store Assets

Impairment of store assets	Fiscal 2014	Fiscal 2013	Change
Impairment of store assets	\$ 216	\$ 140	\$ 76

We recorded non-cash impairment charges related to long-lived assets held at a small number of store locations.

Operating Income

Operating income	Fiscal 2014	Fiscal 2013	Change
Operating income	\$ 9,415	\$ 8,876	\$ 539
Operating income rate as a percentage of net sales	2.2	% 2.0	% 0.2 %

Fiscal 2014 operating income increase compared to fiscal 2013 is mainly attributable to declines in merchandise, buying, and occupancy costs, net of the deferred rent expense error correction and, to a lesser extent, lower SG&A, depreciation and amortization offset, in part, by a decrease in sales.

Other expense, net

	Fiscal 2014	Fiscal 2013	Change
Other expense, net	\$ (191)	\$ (191)	\$ —
Other expense, net rate as a percentage of net sales	* %	* %	* %

* calculated result is not meaningful

Other expense, net remained essentially flat year-over-year and included interest expense of \$0.3 million partly offset by interest and other income of \$0.1 million, in fiscal 2014, compared to interest expense of \$0.3 million, partly offset by a gain on investments of \$0.1 million, in fiscal 2013.

Income tax benefit

	Fiscal 2014	Fiscal 2013	Change
Income taxes			
Income tax provision (benefit)	\$ (37,902)	\$ (5)	\$ (37,897)
Income tax rate as a percentage of net sales	(9.1) %	* %	(9.1) %

* calculated result is not meaningful

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We recorded an income tax benefit of \$37.9 million, due to the reversal of the valuation allowance on our deferred tax assets, in fiscal 2014. In the fourth quarter of fiscal 2014, the Company released the vast majority of the valuation allowance based on two consecutive years of profitability, three years of cumulative positive earnings achieved in the fourth quarter of fiscal 2014 and the Company's forecast of continued profitability in fiscal 2015. A small valuation allowance was retained for state net operating loss carry forwards that may expire before they are utilized. The release of the valuation allowance resulted in a \$41.3 million benefit to the income tax provision in fiscal 2014. For fiscal 2013, we recorded an income tax benefit of \$ 5 thousand, with an effective tax rate of (0.06) %. See Note 10 – Income Taxes for a complete discussion on the reversal of our valuation allowance.

Net income

Net income	Fiscal 2014	Fiscal 2013	Change
Net income	\$ 47,126	\$ 8,690	\$ 38,436
Net income rate as a percentage of net sales	11.3 %	2.0 %	9.3 %

Our increase in net earnings in fiscal 2014 compared to fiscal 2013 is primarily due to an income tax benefit due to the reversal of the valuation allowance on our deferred tax assets coupled with declines in merchandise, buying, and occupancy costs, net of the deferred rent expense error correction and, to a lesser extent, lower SG&A, depreciation and amortization offset, in part, by a decrease in sales.

First Quarter 2016 Outlook

We expect first quarter net sales of between \$93.0 million and \$98.0 million compared to \$91.6 million for the first quarter of fiscal 2015.

In the first quarter of fiscal 2016 we expect gross margin to be 20 to 80 basis points higher than last year's first quarter gross margin of 35.2%, driven primarily by higher merchandise margins as a result of our improved inventory position offset slightly by deleveraging of occupancy and other cost of goods sold.

We expect SG&A dollars to be between \$35.6 million and \$36.0 million, compared to \$32.0 million of SG&A expense in the first quarter last year. The expected increase in SG&A is mainly attributable to \$1.6 million in higher legal and other professional fees, incremental marketing expense of \$0.5 million, a one-time expense to exit the current eCommerce platform and related transitional costs of \$0.5 million, and higher medical costs of \$0.4 million.

We expect depreciation and amortization to be approximately \$3.0 million compared to \$2.7 million for the first quarter last year.

We expect in-store inventory per square foot, excluding eCommerce inventory, to be approximately 8% lower than at the end of the first quarter of fiscal 2015.

During the first quarter, we anticipate closing 5 CB stores, 2 CJ stores and 1 MPW store. We also plan to convert 4 CB and CJ stores into 2 MPW stores. In fiscal 2016, we expect the pace of conversions will be slowing down based on a lower number of upcoming lease expirations.

We plan on opening 4 outlet stores during the first quarter and 1 MPW store. Average square footage is expected to be up by 2.4% compared to the first quarter of last year.

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Liquidity and Capital Resources

Summary

We expect to operate our business and execute our strategic initiatives principally with funds generated from operations and, if necessary, from our Credit Facility, subject to compliance with the financial covenant and the other terms of the Company's amended and restated credit agreement "Credit Facility" with Wells Fargo Bank N.A "Wells Fargo". Cash flow from operations has historically been sufficient to provide for our uses of cash.

The following table summarizes our cash and cash equivalents and investments as of the end of fiscal 2015 and the end of fiscal 2014:

(in thousands)	January 30, 2016	January 31, 2015
Cash and cash equivalents	\$ 31,506	\$ 37,245
Short-term investments	3,015	13,293
Long-term investments	—	4,752
Total cash, cash equivalents and investments	\$ 34,521	\$ 55,290

The \$20.8 million decrease in cash and cash equivalents and investments is mainly attributable to our investments in new stores, MPW conversions and omni-channel capabilities.

Cash Flows

The following table summarizes our cash flows from operating, investing, and financing activities for each of the past three fiscal years:

(in thousands)	Fiscal 2015	Fiscal 2014	Fiscal 2013
Net cash provided by operating activities	\$ 5,382	\$ 19,001	\$ 25,054
Net cash used in investing activities	(11,095)	(22,244)	(24,722)
Net cash (used in) provided by financing activities	(26)	(586)	3
Net (decrease) increase in cash and cash equivalents	\$ (5,739)	\$ (3,829)	\$ 335

Operating Activities

The decrease in cash provided by operating activities in fiscal 2015 compared to fiscal 2014 was primarily due to the change from net income in fiscal 2014 to a net loss in fiscal 2015, in each case, before non-cash expenses and changes in working capital. The changes in working capital primarily reflected improved inventory management and the timing of payables, partly offset by an increase in prepaid assets due to service contracts supporting omni-channel capabilities.

The decrease in cash provided by operating activities in fiscal 2014 compared to fiscal 2013 was mostly due to changes in working capital. The changes in working capital were mostly due to the timing of accounts payable due to higher receipt levels in January 2014 as compared to January 2015 as we built our core inventory in late fiscal 2013 to early fiscal 2014. Accounts receivable increased due to increased tenant allowances on new store leases. Accrued liabilities decreased due to the absence of an accrual of incentive compensation in fiscal 2014, as well as a decrease in accrued occupancy expenses as fewer stores were surpassing their sales breakpoint.

Investing Activities

The decrease in cash used in investing activities in fiscal 2015 compared to fiscal 2014 was mainly due to the conversion of investments to cash to fund investments in new stores, MPW conversions and omni-channel capabilities. Capital expenditures for fiscal 2015 were approximately \$26 million, which reflected increases in new stores and investments in technology associated with our Customer First initiative.

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The decrease in cash used in investing activities in fiscal 2014 compared to fiscal 2013 was driven by a decline in the purchase of available-for-sale investments, partially offset by increased capital expenditures of approximately \$12 million and the sales of available-for-sale investments as they matured.

Financing Activities

Financing activities in fiscal 2015 were limited to a small number of shares redeemed by employees to satisfy payroll tax obligations.

Financing activities in fiscal 2014 were limited to a small number of shares redeemed by employees to satisfy payroll tax obligations, partially offset by proceeds received from the exercise of stock options.

We have not paid any dividends in the last three fiscal years.

Sources of Liquidity

Funds generated by operating activities, available cash and cash equivalent, investments and our Credit Facility are our most significant sources of liquidity. We believe that our sources of liquidity will be sufficient to sustain operations and to finance anticipated capital investments and strategic initiatives over the next twelve months. However, in the event our liquidity is not sufficient to meet our operating needs, we may be required to limit our spending. There can be no assurance that we will continue to generate cash flows at or above current levels or that we will be able to maintain our ability to borrow under our existing facilities or obtain additional financing, if necessary, on favorable terms.

The Credit Facility with Wells Fargo was most recently amended and extended on September 8, 2014. The current expiration date is September 2019. The Credit Facility provides the Company with revolving credit loans of up to \$50.0 million in the aggregate, subject to a borrowing base formula based primarily on eligible credit card receivables, inventory and real estate, as such terms are defined in the Credit Facility, and up to \$10.0 million of which may be drawn in the form of standby and documentary letters of credit.

The Company had no revolving credit loan borrowings under the Credit Facility during fiscal 2015, fiscal 2014 or fiscal 2013. The total borrowing base at January 30, 2016, was approximately \$26.3 million. As of January 30, 2016, the Company had open on-demand letters of credit of approximately \$0.3 million. Accordingly, after reducing the

borrowing base for the open letters of credit and the required minimum availability of the greater of \$3.0 million, or 10.0% of the borrowing base, the net availability of revolving credit loans under the Credit Facility was approximately \$23.0 million at January 30, 2016.

See Note 7 - Credit Facility for additional details regarding our Credit Facility, including a description of the sole financial covenant, with which we were in compliance as of January 30, 2016.

Contractual Obligations

The following table summarizes our aggregate contractual obligations as of January 30, 2016, and the estimated timing and effect that such obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

	Payments Due by Period				Total
	Fiscal 2016	Fiscal 2017-2018	Fiscal 2019-2020	Fiscal 2021 and Thereafter	
Contractual Obligations					
Operating leases	\$ 38,638	\$ 58,949	\$ 43,957	\$ 68,361	\$ 209,905

Our contractual obligations include operating leases for each of our retail store locations and vehicles. The contractual obligation for operating leases includes future minimum rental commitments as of January 30, 2016, and excludes common area maintenance charges, real estate taxes and other costs associated with operating leases. These types of costs, which are not fixed and determinable, totaled \$19.2 million, \$17.6 million and \$17.8 million in fiscal 2015, fiscal 2014, and fiscal 2013, respectively.

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We expect to fund these contractual obligations with operating cash flows generated in the normal course of business.

The summary of our aggregate contractual obligations does not include possible payments for uncertain tax positions. Our liability for uncertain tax positions, excluding interest and penalties, was approximately \$0.9 million at January 30, 2016. Due to the nature of the underlying liabilities and the extended time often needed to resolve income tax uncertainties, we cannot make reliable estimates of the amount or timing of cash payments that may be required to settle these tax liabilities.

At January 30, 2016, we had no other contractual obligations relating to short or long-term debt, capital leases or non-cancelable purchase obligations. In addition, we had no contractual obligations relating to the other liabilities recorded in our balance sheet under accounting principles generally accepted in the United States.

Off-Balance Sheet Obligations

We do not have relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purposes entities, which would have been established for the purpose of facilitating off-balance sheet financial arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Related Party Transactions

We, or our subsidiaries, have for the past several years purchased goods from or through G-III Apparel Group Ltd. (“G-III”) or its related entities. On January 3, 2011, Morris Goldfarb, the Chairman of the Board and Chief Executive Officer of G-III, became a director of the Company. On June 27, 2013, Mr. Goldfarb ceased to be a member of the Board as he did not stand for re-election at the Company's annual meeting of stockholders in June 2013. In fiscal 2014 and fiscal 2013, payments made by us and our subsidiaries to G-III and its related entities aggregated approximately \$1.1 million and \$1.2 million, respectively. As of January 31, 2015, we had a balance due to G-III or its related entities of approximately \$12 thousand. We have evaluated the terms and considerations for such related party transactions and have determined the terms are comparable to amounts that would have to be paid to, or received from, independent third parties. G-III was not considered a related party during fiscal 2015.

Sourcing

We directly imported approximately 38% and 39% of our merchandise purchases during fiscal 2015 and fiscal 2014, respectively. A significant amount of our merchandise was manufactured overseas during each of these fiscal periods, primarily in China and Indonesia. Our reliance on sourcing from foreign countries may cause us to be exposed to certain risks as indicated below and in Part I, “Item 1A. Risk Factors” in this Annual Report on Form 10-K.

We do not have long-term purchase commitments or arrangements with any of our suppliers or buying agents. Our ten largest vendors represented approximately 70% of our total merchandise purchases in fiscal 2015, fiscal 2014, and fiscal 2013, respectively. One of our suppliers accounted for approximately 30%, 28% and 19% of our purchases during fiscal 2015, fiscal 2014, and fiscal 2013, respectively. Another supplier accounted for approximately 10%, 10% and 11% of our purchases during fiscal 2015, fiscal 2014, and fiscal 2013, respectively. No other vendor supplied greater than 10% of the Company's merchandise purchases during the last three fiscal years.

Import restrictions, including tariffs and quotas, and changes in such restrictions, could affect the importation of apparel and might result in increased costs, delays in merchandise receipts or reduced supplies of apparel available to us, and could have an adverse effect on our financial condition, results of operations and liquidity. Our merchandise flow could also be adversely affected by political instability in any of the countries where our merchandise is manufactured or by changes in the United States government's policies toward such foreign countries. In addition, merchandise receipts could be delayed due to interruptions in air, ocean and ground shipments.

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We currently expect product costs to remain relatively stable in fiscal 2016.

Seasonality

Our quarterly results may fluctuate significantly depending on a number of factors, including general economic conditions, consumer confidence, customer response to our seasonal merchandise mix, timing of new store openings, adverse weather conditions, and shifts in the timing of certain holidays and shifts in the timing of promotional events.

Inflation

We do not believe that inflation had a material effect on our results of operations in the last three fiscal years.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements and related notes, which have been prepared in accordance with generally accepted accounting principles used in the United States . The preparation of these financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during a reporting period. Management bases its estimates on historical experience and various other assumptions that we believe to be reasonable. As a result, actual results could differ because of the use of these estimates and assumptions.

Our significant accounting policies can be found in Note 1 - Nature of Business and Significant Accounting Policies, to the consolidated financial statements contained in Item 8 of this Annual Report on Form 10-K. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most challenging and complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

Inventory valuation

Merchandise inventories are stated at the lower of cost or market utilizing the retail inventory method. The retail inventory method inherently requires management judgments and estimates, such as the amount and timing of

permanent markdowns to clear unproductive or slow-moving inventory, which may impact the ending inventory valuation as well as gross margins.

Permanent markdowns designated for clearance activity are recorded when the utility of the inventory has diminished. Factors considered in the determination of permanent markdowns include current and anticipated demand, customer preferences, age of the merchandise and fashion trends. When a decision is made to permanently mark down merchandise, the resulting gross profit reduction is recognized.

Physical inventories are generally taken annually, and inventory records are adjusted accordingly, resulting in the recording of actual shrinkage. Physical inventories are taken at all store locations approximately three weeks before the end of the fiscal year. Shrinkage is estimated as a percentage of net sales at interim periods and for this approximate three-week period, based on historical shrinkage rates.

We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our inventory markdowns or shrinkage rates. However, if estimates regarding consumer demand are inaccurate or actual physical inventory shrink differs significantly from our estimate, our operating results could be materially affected.

Long-lived assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

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When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the sum of the estimated future cash flows is less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which is typically based on estimated discounted future cash flows. We recognize an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis is depreciated over the remaining useful life of that asset.

When reviewing long-lived assets for impairment, we group long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. For long-lived assets deployed at store locations, we review for impairment at the individual store level. These reviews involve comparing the carrying value of all leasehold improvements, fixtures and equipment located at each store to the net cash flow projections for each store. In addition, we conduct separate impairment reviews at other levels as appropriate. For example, shared assets such as our corporate office and distribution center would be evaluated by reference to the aggregate assets, liabilities and projected residual cash flows of all areas of the businesses utilizing those shared assets.

Our impairment loss calculations involve uncertainty because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including estimating useful lives of the assets and selecting the discount rate that reflects the risk inherent in future cash flows. If actual results are not consistent with our estimates and assumptions used in estimating future cash flows and asset fair values, we may be exposed to losses that could be material. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate long-lived asset impairment losses.

We recorded long-lived store-level asset impairment charges of approximately \$0.3 million, \$0.2 million and \$0.1 million in fiscal 2015, fiscal 2014, and fiscal 2013, respectively, related to a small number of underperforming store locations.

Customer loyalty program

The Company's Friendship Rewards loyalty program grants customers the ability to accumulate points based on purchase activity. Once a Friendship Rewards member achieves a certain point level, the member earns award certificates that may be redeemed towards future merchandise purchases. Points are accrued as unearned revenue and recorded as a reduction of net sales and a current liability as they are accumulated by members and certificates are earned. The liability is recorded net of estimated breakage based on historical redemption patterns and trends. Revenue and the related cost of sales are recognized upon redemption of the reward certificates, which expire approximately six weeks after issuance.

A customer loyalty liability of \$3.8 million and \$3.7 million is included in accrued liabilities as of the end of fiscal 2015 and fiscal 2014, respectively.

Income taxes

Our income tax returns are subject to or are in the process of being audited by various taxing authorities. To the extent our estimates of settlements change or the final tax outcome is different from the amounts recorded, such differences will impact the income tax provision in the period in which such determinations are made. Our income tax expense includes changes in our estimated liability for exposures associated with our various tax filing positions. Although we believe that our judgments are reasonable, actual results could differ, and we may be exposed to losses or gains that could be material.

We record a valuation allowance against our deferred tax assets when it is more likely than not that some portion or all of our deferred tax assets will not be realized. In determining the need for a valuation allowance, management is required to make judgments regarding future income, taxable income, and the potential effects of the mix of income or losses in the jurisdictions in which we operate.

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As a result of recent operating losses and the uncertainty of future results, we recorded a \$37.5 million valuation allowance on our deferred tax assets in the fourth quarter of fiscal 2015. Although we firmly believe we can return our financial results to a consistent net earnings position, the recent string of operating losses requires us to acknowledge there is risk to realizing the benefit of the deferred tax assets.

In contrast, in the fourth quarter fiscal 2014, the Company released the vast majority of our valuation allowance on our deferred tax assets based on consecutive quarters of operating income and an expectation of continued positive earnings resulting in a \$41.3 million benefit to the income tax provision in fiscal 2014. A small valuation allowance was retained for state net operating loss carryforwards that may expire before they are utilized.

We have analyzed equity ownership changes and determined our net operating losses will not be limited under IRC Section 382.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued authoritative guidance under Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 supersedes existing revenue recognition requirements and provides a new comprehensive revenue recognition model that requires entities to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers, Deferral of the Effective Date, which defers the effective date of the new revenue recognition standard by one year. As a result, ASU 2014-09 is effective retrospectively for fiscal years and interim periods within those years beginning after December 15, 2017. Adoption is allowed by either the full retrospective or modified retrospective approach. The Company is currently evaluating which approach it will apply and the potential impact on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The Company elected early adoption of this guidance for the fiscal year ended January 30, 2016, on a prospective basis. The adoption of this ASU allows the Company to simplify its presentation of deferred income tax liabilities and assets. Prior periods were not retrospectively adjusted.

In February 2016, the FASB issued ASU 2016-02, Leases, which requires that lease arrangements longer than twelve months result in an entity recognizing an asset and liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. We have not evaluated the impact of the

updated guidance on our consolidated financial statements.

We reviewed all other significant newly-issued accounting pronouncements and concluded they are either not applicable to our operations, or that no material effect is expected on our consolidated financial statements as a result of future adoption.

Forward-Looking Statements

We may make forward-looking statements reflecting our current views with respect to future events and financial performance. These forward-looking statements, which may be included in reports filed under the Exchange Act, in press releases and in other documents and materials as well as in written or oral statements made by or on behalf of the Company, are subject to certain risks and uncertainties, including those discussed in Item 1A – Risk Factors of this Annual Report on Form 10-K, which could cause actual results to differ materially from historical results or those anticipated.

The words or phrases “will likely result,” “are expected to,” “estimate,” “project,” “believe,” “expect,” “should,” “anticipate,” “intend” and similar expressions are intended to identify forward-looking statements within the meaning of Section 21e of the Exchange Act and Section 27A of the Securities Act of 1933, as amended, as enacted by

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the Private Securities Litigation Reform Act of 1995 (“PSLRA”). In particular, we desire to take advantage of the protections of the PSLRA in connection with the forward-looking statements made in this Annual Report on Form 10-K.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date such statements are made. In addition, we wish to advise readers that the factors listed in Item 1A of this Annual Report on Form 10-K, as well as other factors, could affect our performance and could cause our actual results for future periods to differ materially from any opinions or statements expressed. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in our financial instruments and in our financial position represents the potential loss arising from adverse changes in interest rates. We are potentially exposed to market risk from changes in interest rates relating to our Credit Facility with Wells Fargo Bank. Loans under the Credit Facility bear interest at a rate ranging from 1.50% to 1.75% over the LIBOR or 0.50% to 0.75% over the Wells Fargo Prime Rate, based on the amount of Average Daily Availability as such terms are defined in the Credit Facility.

We enter into certain purchase obligations outside the U.S., which are denominated and settled in U.S. dollars. Therefore, we have only minimal exposure to foreign currency exchange risks. We do not hedge against foreign currency risks and believe that our foreign currency exchange risk is immaterial. We do not have any derivative financial instruments and do not hold any derivative financial instruments for trading purposes.

We are exposed to limited market risk from changes in interest rates relating to our investments. The potential immediate loss to us that would result from a hypothetical 1% change in interest rates would not be expected to have a material impact on our earnings or cash flows.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Christopher & Banks Corporation:

We have audited the accompanying consolidated balance sheets of Christopher & Banks Corporation and subsidiaries as of January 30, 2016 and January 31, 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the fiscal years in the three year period ended January 30, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Christopher & Banks Corporation and subsidiaries as of January 30, 2016 and January 31, 2015, and the results of their operations and their cash flows for each of the fiscal years in the three year period ended January 30, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Christopher & Banks Corporation's internal control over financial reporting as of January 30, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 18, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Minneapolis, Minnesota

March 18, 2016

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Christopher & Banks Corporation:

We have audited Christopher & Banks Corporation's internal control over financial reporting as of January 30, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Christopher & Banks Corporation'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 Management's Annual 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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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, Christopher & Banks Corporation maintained, in all material respects, effective internal control over financial reporting as of January 30, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Christopher & Banks Corporation and subsidiaries as of January 30, 2016 and January 31, 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the fiscal years in the three-year period ended January 30, 2016, and our report dated March 18, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Minneapolis, Minnesota

March 18, 2016

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CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

	January 30, 2016	January 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,506	\$ 37,245
Short-term investments	3,015	13,293
Accounts receivable	4,067	4,000
Merchandise inventories	42,481	45,318
Prepaid expenses and other current assets	9,059	6,700
Deferred income taxes	—	3,550
Income taxes receivable	513	845
Total current assets	90,641	110,951
Property, equipment and improvements, net	59,224	45,107
Other non-current assets:		
Long-term investments	—	4,752
Deferred income taxes	393	34,388
Other assets	632	839
Total other non-current assets	1,025	39,979
Total assets	\$ 150,890	\$ 196,037
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 16,645	\$ 18,411
Accrued salaries, wages and related expenses	2,845	2,957
Accrued liabilities and other current liabilities	24,570	23,988
Total current liabilities	44,060	45,356
Non-current liabilities:		
Deferred lease incentives	9,880	7,110
Deferred rent obligations	7,241	6,390
Other non-current liabilities	1,301	1,292
Total non-current liabilities	18,422	14,792
Commitments	—	—
Stockholders' equity:		
Preferred stock — \$0.01 par value, 1,000 shares authorized, none outstanding	—	—
Common stock — \$0.01 par value, 74,000 shares authorized, 46,870 and 46,720 shares issued, and 37,079 and 36,929 shares outstanding at January 30, 2016 and January 31, 2015, respectively	468	466
Additional paid-in capital	125,851	124,242

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Retained earnings	74,800	123,894
Common stock held in treasury, 9,791 shares at cost at January 30, 2016 and January 31, 2015	(112,711)	(112,711)
Accumulated other comprehensive income (loss)	—	(2)
Total stockholders' equity	88,408	135,889
Total liabilities and stockholders' equity	\$ 150,890	\$ 196,037

See Notes to Consolidated Financial Statements

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CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Fifty-Two Weeks Ended January 30, 2016	Fifty-Two Weeks Ended January 31, 2015	Fifty-Two Weeks Ended February 1, 2014
Net sales	\$ 383,828	\$ 418,584	\$ 435,754
Merchandise, buying and occupancy costs	254,350	270,790	284,723
Gross profit	129,478	147,794	151,031
Other operating expenses:			
Selling, general and administrative	128,413	126,377	128,847
Depreciation and amortization	12,048	11,786	13,168
Impairment of store assets	281	216	140
Total other operating expenses	140,742	138,379	142,155
Operating (loss) income	(11,264)	9,415	8,876
Other expense, net	(115)	(191)	(191)
Income (loss) before income taxes	(11,379)	9,224	8,685
Income tax provision (benefit)	37,715	(37,902)	(5)
Net (loss) income	\$ (49,094)	\$ 47,126	\$ 8,690
Basic (loss) income per share:			
Net (loss) income	\$ (1.33)	\$ 1.28	\$ 0.24
Basic shares outstanding	36,886	36,819	36,246
Diluted (loss) income per share:			
Net (loss) income	\$ (1.33)	\$ 1.24	\$ 0.23
Diluted shares outstanding	36,886	37,753	37,144

See Notes to Consolidated Financial Statements

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CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Fifty-Two Weeks Ended January 30, 2016	Fifty-Two Weeks Ended January 31, 2015	Fifty-Two Weeks Ended February 1, 2014
Net (loss) income	\$ (49,094)	\$ 47,126	\$ 8,690
Other comprehensive income, net of tax:			
Unrealized holding gains (losses) on securities arising during the period, net of taxes of \$(1), \$2, and \$0, respectively	1	(5)	3
Reclassification adjustment for (gains) losses included in net (loss) income, net of taxes of \$(1), \$0 and \$0, respectively	1	—	—
Total other comprehensive income (loss)	2	(5)	3
Comprehensive (loss) income	\$ (49,092)	\$ 47,121	8,693

See Notes to Consolidated Financial Statements

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CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Treasury		Common Stock			Retained Earnings	Accumulated Other Comprehensive Income (Loss)	
	Shares Held	Amount Held	Shares Outstanding	Amount Outstanding	Additional Paid-in Capital		Total	(Loss)
February 2, 2013	9,791	\$ (112,711)	36,964	\$ 467	\$ 119,632	\$ 68,078	\$ —	\$ 75,466
Total comprehensive income	—	—	—	—	—	8,690	3	8,693
Stock issued upon exercise of options, net	—	—	56	1	2	—	—	3
Issuance of restricted stock, net of forfeitures	—	—	(597)	(7)	6	—	—	(1)
Stock-based compensation expense	—	—	—	—	2,776	—	—	2,776
February 1, 2014	9,791	\$ (112,711)	36,423	\$ 461	\$ 122,416	\$ 76,768	\$ 3	\$ 86,937
Total comprehensive loss	—	—	—	—	—	47,126	(5)	47,121
Stock issued upon exercise of options, net	—	—	470	5	(386)	—	—	(381)
Issuance of restricted stock, net of forfeitures	—	—	36	—	(106)	—	—	(106)
Stock-based compensation expense	—	—	—	—	2,318	—	—	2,318
January 31, 2015	9,791	\$ (112,711)	36,929	\$ 466	\$ 124,242	\$ 123,894	\$ (2)	\$ 135,889
Total comprehensive income	—	—	—	—	—	(49,094)	2	(49,092)
Stock issued upon exercise of options, net	—	—	—	—	—	—	—	—
Issuance of restricted stock,	—	—	150	2	(28)	—	—	(26)

net of forfeitures
 Stock-based
 compensation
 expense

January 30, 2016	—	—	—	—	1,637	—	—	1,637
	9,791	\$ (112,711)	37,079	\$ 468	\$ 125,851	\$ 74,800	\$ —	\$ 88,408

See Notes to Consolidated Financial Statements

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CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Fifty-Two Weeks Ended January 30, 2016	Fifty-Two Weeks Ended January 31, 2015	Fifty-Two Weeks Ended February 1, 2014
Cash flows from operating activities:			
Net (loss) income	\$ (49,094)	\$ 47,126	\$ 8,690
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Depreciation and amortization	12,048	11,786	13,168
Impairment of store assets	281	216	140
Deferred income taxes, net	37,544	(37,938)	—
Loss on investment, net	—	1	—
Amortization of premium on investments	46	47	56
Amortization of financing costs	62	68	73
Deferred lease-related liabilities	3,267	6,473	(1,819)
Stock-based compensation expense	1,637	2,318	2,776
Loss on disposal of assets	—	56	9
Changes in operating assets and liabilities:			
Accounts receivable	(67)	(1,572)	1,202
Merchandise inventories	2,837	(441)	(2,173)
Prepaid expenses and other assets	(2,214)	198	(555)
Income taxes receivable	332	(535)	95
Accounts payable	(1,670)	(5,119)	612
Accrued liabilities	370	(3,826)	3,240
Other liabilities	3	143	(460)
Net cash provided by operating activities	5,382	19,001	25,054
Cash flows from investing activities:			
Purchases of property, equipment and improvements	(26,082)	(20,270)	(8,544)
Purchases of available-for-sale investments	—	(18,480)	(24,484)
Maturities of available-for-sale investments	14,987	16,506	8,306
Net cash used in investing activities	(11,095)	(22,244)	(24,722)
Cash flows from financing activities:			
Shares redeemed for payroll taxes	(26)	(1,486)	(211)
Exercise of stock options	—	999	214
Payment of deferred financing costs	—	(99)	—
Net cash (used in) provided by financing activities	(26)	(586)	3
Net (decrease) increase in cash and cash equivalents	(5,739)	(3,829)	335
Cash and cash equivalents at beginning of period	37,245	41,074	40,739
Cash and cash equivalents at end of period	\$ 31,506	\$ 37,245	\$ 41,074
Supplemental cash flow information:			

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Interest paid	\$ 168	\$ 259	\$ 253
Income taxes (refunded) paid	\$ (223)	\$ 487	\$ 215
Accrued purchases of equipment and improvements	\$ 1,105	\$ 740	\$ 304
Shares surrendered for stock option cost	\$ —	\$ 1,715	\$ —

See Notes to Consolidated Financial Statements

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CHRISTOPHER & BANKS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — Nature of Business and Significant Accounting Policies

Christopher & Banks Corporation, through its wholly owned subsidiaries (collectively referred to as “Christopher & Banks”, “the Company”, “we” or “us”), operates retail stores selling women’s apparel in the United States (“U.S.”). The Company operated 518, 518 and 560 stores as of January 30, 2016, January 31, 2015 and February 1, 2014, respectively. The Company also operates an eCommerce website for its Christopher & Banks and C.J. Banks brands at www.christopherandbanks.com.

Fiscal year and basis of presentation

The Company follows the standard fiscal year of the retail industry, which is a fifty-two or fifty-three week period ending on the Saturday closest to January 31, and is designated by the calendar year in which the fiscal year commences. The fiscal years ended January 30, 2016 (“fiscal 2015”), January 31, 2015 (“fiscal 2014”), and February 1, 2014 (“fiscal 2013”) consisted of fifty-two weeks each, respectively.

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

Certain reclassifications have been made to prior period amounts to conform to the current period presentation. None of the reclassifications had a material effect on the Company’s financial position, results of operations or cash flows in any period.

Correction of an error

In connection with the preparation of the Company’s consolidated financial statements for the fiscal year ended January 31, 2015, the Company determined that its calculation of deferred rent expense was incorrect. The Company corrected the error in the fourth quarter of fiscal 2014, which resulted in a cumulative increase to rent expense of

approximately \$3.6 million recorded in merchandise, buying and occupancy expenses within the consolidated statements of operations. The effect of the correction was to decrease the Company's operating income for the 2014 fourth quarter and fiscal year by approximately \$3.6 million; net income for the fourth quarter and fiscal year were reduced by approximately \$2.2 million. There was no impact to cash flows from operations. The Company concluded that this correction was immaterial to the related consolidated financial statements as a whole.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during reporting periods. As a result, actual results could differ because of the use of these estimates and assumptions.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and in banks and investments purchased with an original maturity of ninety days or less.

Investments

Investments are accounted for in accordance with Accounting Standards Codification ("ASC") 320-10, Investments — Debt and Equity Securities. At January 30, 2016 and January 31, 2015, the Company's investment balances consisted

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solely of available-for-sale securities and were valued at fair value in accordance with ASC 820-10 Fair Value Measurements.

Available-for-sale securities are carried at fair value with unrealized gains and losses reported as a component of stockholders' equity as accumulated other comprehensive income (loss), net of tax. Fair value for available-for-sale securities is based on quoted prices for similar assets in active markets or quoted prices for identical or similar assets in markets in which there were fewer transactions. Amortization of premiums or discounts arising at acquisition, and gains or losses on the disposition of available-for-sale securities are reported as other income (expense) in the consolidated statements of operations. Realized gains and losses, if any, are calculated on the specific identification method and are included in other income (expense) in the consolidated statements of operations.

Available-for-sale securities are reviewed for possible impairment at least quarterly, or more frequently if circumstances arise which may indicate impairment. When the fair value of the securities declines below the amortized cost basis, impairment is indicated and it must be determined whether it is other than temporary. Impairment is considered to be other than temporary if the Company: (i) intends to sell the security, (ii) will more likely than not be forced to sell the security before recovering its cost, or (iii) does not expect to recover the security's amortized cost basis. If the decline in fair value is considered other than temporary, the cost basis of the security is adjusted to its fair market value and the realized loss is reported in earnings. Subsequent increases or decreases in fair value are reported in equity as accumulated other comprehensive income (loss).

Inventory valuation

Merchandise inventories are stated at the lower of cost or market utilizing the retail inventory method. The retail inventory method inherently requires management judgments and estimates, such as the amount and timing of permanent markdowns to clear unproductive or slow-moving inventory, which may impact the ending inventory valuation as well as gross margins.

Permanent markdowns designated for clearance activity are recorded when the utility of the inventory has diminished. Factors considered in the determination of permanent markdowns include current and anticipated demand, customer preferences, age of the merchandise and fashion trends. When a decision is made to permanently mark down merchandise, the resulting gross profit reduction is recognized.

Physical inventories are generally taken annually, and inventory records are adjusted accordingly, resulting in the recording of actual shrinkage. Physical inventories are taken at all store locations approximately three weeks before the end of the fiscal year. Shrinkage is estimated as a percentage of net sales at interim periods and for this approximate three-week period, based on historical shrinkage rates.

Property, equipment and improvements, net

Property, equipment and improvements are initially recorded at cost. Property and equipment is depreciated on a straight-line basis over its estimated useful life as follows:

Description	Estimated Useful Lives
Building and building improvements	25 years
Computer hardware and software	3 to 5 years
Equipment, furniture and fixtures	3 to 10 years
Store leasehold improvements	Shorter of the useful life or term of lease, typically 10 years

Repairs and maintenance which do not extend an asset's useful life are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for that period.

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Long-lived assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the sum of the estimated future cash flows is less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which is typically based on estimated discounted future cash flows. We recognize an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis is depreciated over the remaining useful life of that asset.

When reviewing long-lived assets for impairment, we group long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. For long-lived assets deployed at store locations, we review for impairment at the individual store level. These reviews involve comparing the carrying value of all leasehold improvements, fixtures and equipment located at each store to the net cash flow projections for each store. In addition, we conduct separate impairment reviews at other levels as appropriate. For example, shared assets such as our corporate office and distribution center would be evaluated by reference to the aggregate assets, liabilities and projected residual cash flows of all areas of the businesses utilizing those shared assets.

Our impairment loss calculations involve uncertainty because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including estimating useful lives of the assets and selecting the discount rate that reflects the risk inherent in future cash flows. If actual results are not consistent with our estimates and assumptions used in estimating future cash flows and asset fair values, we may be exposed to losses that could be material. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate long-lived asset impairment losses.

We recorded long-lived store-level asset impairment charges of approximately \$0.3 million, \$0.2 million and \$0.1 million in fiscal 2015, fiscal 2014, and fiscal 2013, respectively, related to a small number of underperforming store locations. See Note 12 - Fair Value Measurements, for further detail.

Common stock held in treasury

Treasury stock is accounted for under the cost method, whereby stockholders' equity is reduced for the total cost of the shares repurchased.

Revenue recognition

Sales are recognized at the point of purchase when a customer takes possession of the merchandise and pays for the purchase with cash, credit card, debit card or gift card. The Company records eCommerce revenue upon the estimated date the customer receives the merchandise. Shipping and handling revenues are included in net sales. Sales are recognized net of a sales return reserve, which is based on historical sales return data and is not material. Sales taxes collected from customers are remitted to the appropriate taxing jurisdictions and are excluded from net sales.

Gift cards are recorded as a liability when issued and until they are redeemed, at which point a sale is recorded. Unredeemed gift cards ("gift card breakage") is recognized as a reduction of merchandise, buying and occupancy costs when the likelihood of a gift card being redeemed by a customer in the future is deemed remote and the Company determines that there is no legal obligation to remit the value of the unredeemed gift card to any state or local jurisdiction as unclaimed or abandoned property. The Company utilizes historical redemption patterns in order to estimate the rate and timing of breakage associated with gift cards. Based on historical redemption patterns, we currently recognize breakage for a portion of the gift card balances that remain outstanding following 36 months of issuance.

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Vendor allowances

At certain times the Company receives allowances or credits from its merchandise vendors primarily related to goods that do not meet our quality standards. These allowances or credits are reflected as a reduction of merchandise inventory in the period they are received. The majority of merchandise is produced exclusively for the Company. Accordingly, the Company does not enter into any arrangements with vendors where payments or other consideration might be received in connection with the purchase or promotion of a vendor's products such as buy-down agreements or cooperative advertising programs.

Merchandise, buying and occupancy costs

Merchandise, buying and occupancy costs include the cost of merchandise, markdowns, shrink, freight, shipping and handling charges, buyer and distribution center salaries, buyer travel, rent and other occupancy related costs, various merchandise design and development costs, miscellaneous merchandise-related expenses and other costs related to the Company's distribution network. Merchandise, buying and occupancy costs do not include any depreciation or amortization expense.

Selling, general and administrative expenses

Selling, general and administrative expenses include salaries, with the exception of buyer and distribution center salaries, other employee benefits, marketing, store supplies, payment processing fees, information technology-related costs, insurance, professional services, non-buyer travel and miscellaneous other selling and administrative related expenses. Selling, general and administrative expenses do not include any depreciation or amortization expense.

Store pre-opening costs

Non-capital expenditures such as payroll and training costs incurred prior to the opening of a new store are charged to selling, general and administrative expense in the period they are incurred.

Rent expense, deferred rent obligations and deferred lease incentives

The Company leases all of its store locations under operating leases. Most of these lease agreements contain tenant improvement allowances, funded by landlord cash incentives or rent abatements, which are recorded as a deferred lease incentive liability and amortized as a reduction of rent expense over the term of the lease. For purposes of recognizing landlord incentives and minimum rental expense, the Company utilizes the date that it obtains the legal right to use and control the leased space, which is generally when the Company enters the space and begins to make improvements in preparation for opening a new store location.

Certain lease agreements contain rent escalation clauses which provide for scheduled rent increases during the lease term or for rental payments commencing at a date other than the date of initial occupancy. Such escalating rent expense is recorded on a straight-line basis over the lease term, not including any renewal option periods, and the difference between the recognized rent expense and amounts payable under the lease are recorded as deferred rent obligations.

The Company's leases may also provide for contingent rents, which are determined as a percentage of sales in excess of specified levels. When specified levels have been achieved or when management determines that achieving the specified levels during the fiscal year is probable, the Company records a current accrued liability along with the corresponding rent expense.

A small portion of our leases contain renewal options that generally allow us to extend the lease for an additional five years.

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Advertising

Advertising costs are expensed as incurred and included in selling, general and administrative expenses. Advertising costs for fiscal 2015, fiscal 2014 and fiscal 2013, were approximately \$7.3 million, \$7.9 million and \$7.4 million, respectively.

Customer loyalty program

The Company's Friendship Rewards loyalty program grants customers the ability to accumulate points based on purchase activity. Once a Friendship Rewards member achieves a certain point level, the member earns award certificates that may be redeemed towards future merchandise purchases. Points are accrued as unearned revenue and recorded as a reduction of net sales and a current liability as they are accumulated by members and certificates are earned. The liability is recorded net of estimated breakage based on historical redemption patterns and trends. Revenue and the related cost of sales are recognized upon redemption of the reward certificates, which expire approximately six weeks after issuance.

Private label credit card program

During fiscal 2012, the Company launched a private label credit card program with a sponsoring bank which provides for the issuance of credit cards bearing the Christopher & Banks and C.J. Banks brands. The sponsoring bank manages and extends credit to the Company's customers and is the sole owner of the accounts receivable generated under the program. As part of the program, the Company received a signing bonus of approximately \$0.5 million from the sponsoring bank and also earns revenue based on card usage by its customers. The deferred signing bonus is included in other liabilities and is being recognized in net sales ratably over the term of the contract. The other revenue based on customer usage of the card is recognized in net sales in the periods in which the related customer transaction occurs. During fiscal 2015, fiscal 2014 and fiscal 2013, the Company recognized approximately \$0.7 million, \$0.7 million and \$0.6 million, respectively, in net royalty revenue included in net sales. In addition, the sponsoring bank reimburses the Company for certain marketing expenditures related to the program, subject to an annual cap on the amount of reimbursable expenses.

Lease termination costs

Discounted liabilities for future lease costs and the fair value of related subleases of closed locations are recorded when the stores are closed prior to the expiration of the lease or execution of a lease termination agreement. In assessing the discounted liabilities for future costs of obligations related to closed stores, the Company makes

assumptions regarding amounts of future subleases. If these assumptions or their related estimates change in the future, the Company may be required to record additional exit costs or reduce exit costs previously accrued. Actual settlements may vary substantially from recorded obligations. As of January 30, 2016 and January 31, 2015, our lease termination liability is not material.

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value are categorized using defined hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair value measurements, as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included in Level 1 that are either directly or indirectly observable

Level 3 – Unobservable inputs that are significant to the fair value of the asset or liability.

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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Certain of the Company's financial assets and liabilities are recorded at their carrying amounts which approximate fair value, based on their short-term nature. These financial assets and liabilities include cash and cash equivalents, accounts receivable and accounts payable. The Company records its investments at fair value. The Company measures certain of its long-lived assets at fair value on a non-recurring basis.

Long-lived store-level asset impairment charges recorded during fiscal 2015, 2014 and 2013 were measured at fair value using Level 3 inputs.

Stock-based compensation

Stock-based compensation is accounted for in accordance with ASC 718-10, Stock Compensation. To calculate the estimated fair value of stock options on the date of grant, the Company uses the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the Company to estimate key assumptions such as expected term, volatility, risk-free interest rates and dividend yield to determine the fair value of stock options, based on both historical information and management judgment regarding market factors and trends. The Company recognizes stock-based compensation expense on a straight-line basis over the corresponding vesting period of the entire award, net of estimated forfeiture rates. The Company estimates expected forfeitures of share-based awards at the grant date and recognizes compensation cost only for those awards expected to vest.

In estimating expected forfeitures, the Company analyzes historical forfeiture and termination information and considers how future termination rates are expected to differ from historical termination rates. The Company ultimately adjusts this forfeiture assumption to actual forfeitures. Any changes in the forfeiture assumptions do not impact the total amount of expense ultimately recognized over the vesting period. Instead, different forfeiture assumptions only impact the timing of expense recognition over the vesting period. If the actual forfeitures differ from management estimates, additional adjustments to compensation expense are recorded.

Restricted stock awards are generally subject to forfeiture if employment or service terminates prior to the lapse of the restrictions. In addition, certain restricted stock awards have performance-based vesting provisions and are subject to forfeiture, in whole or in part, if these performance conditions are not achieved. Management assesses, on an ongoing basis, the probability of whether the performance criteria will be achieved and, once it is deemed probable, compensation expense is recognized over the relevant performance period. For those awards not subject to performance criteria, the cost of the restricted stock awards is expensed, which is determined to be the fair market value of the shares at the date of grant, on a straight-line basis over the vesting period. Time-based grants of restricted stock participate in dividend payments to the extent dividends are declared and paid prior to vesting.

Income taxes

Income taxes are calculated in accordance with ASC 740, Income Taxes, which requires the use of the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future income taxes attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We record a valuation allowance against our deferred tax assets when it is more likely than not that some portion or all of our deferred tax assets will not be realized. In determining the need for a valuation allowance, management is required to make judgments regarding future income, taxable income and the potential effects of the mix of income or losses in jurisdictions in which we operate. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences 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 of such change.

Net income (loss) per common share

The Company utilizes the two-class method of calculating earnings per share (“EPS”) where unvested share-based payment awards that contain non-forfeitable rights to receive dividends or dividend equivalents (whether paid or unpaid) are participating securities, and thus, are included in the two-class method of computing EPS. Participating securities

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include unvested employee restricted stock awards with time-based vesting, which contain non-forfeitable rights to receive dividend payments.

Basic EPS is computed based on the weighted average number of shares of common stock outstanding during the applicable period, while diluted EPS is computed based on the weighted average number of shares of common and common equivalent shares outstanding.

Segment reporting

The Company reports its operations as one reportable segment, Retail Operations, which consists of one operating segment, in accordance with Accounting Standards Codification (“ASC”) Topic 280, “Segment Reporting.” The Company defines an operating segment on the same basis that it uses to evaluate performance and to allocate resources. The Company has also considered its organizational structure and design of its Executive compensation programs. Therefore, the Company reports results as a single segment, which includes the operation of its retail stores, outlet stores, online and mobile.

For details regarding the operating performance of the Company's retail operations and supporting corporate/administrative functions, refer to Note 17 - Segment Reporting.

Recently issued accounting pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance under Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 supersedes existing revenue recognition requirements and provides a new comprehensive revenue recognition model that requires entities to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers, Deferral of the Effective Date, which defers the effective date of the new revenue recognition standard by one year. As a result, ASU 2014-09 is effective retrospectively for fiscal years and interim periods within those years beginning after December 15, 2017. Adoption is allowed by either the full retrospective or modified retrospective approach. The Company is currently evaluating which approach it will apply and the potential impact on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The Company elected early adoption of this guidance for the fiscal year ended January 30, 2016, on a prospective basis.

The adoption of this ASU allows the Company to simplify its presentation of deferred income tax liabilities and assets. Prior periods were not retrospectively adjusted.

In February 2016, the FASB issued ASU 2016-02, Leases, which requires that lease arrangements longer than twelve months result in an entity recognizing an asset and liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. We have not evaluated the impact of the updated guidance on our consolidated financial statements.

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NOTE 2 — Investments

Investments as of January 30, 2016 consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
Available-for-sale securities:				
Corporate bonds	2,810	1	(1)	2,810
Municipal bonds	205	—	—	205
Total short-term investments	3,015	1	(1)	3,015
Total investments	\$ 3,015	\$ 1	\$ (1)	\$ 3,015

Investments as of January 31, 2015, consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
Available-for-sale securities:				
Certificates of deposit	\$ 4,080	\$ —	\$ (2)	\$ 4,078
Commercial paper	7,384	3	(3)	7,384
Corporate bonds	1,615	1	—	1,616
Municipal bonds	214	1	—	215
Total short-term investments	13,293	5	(5)	13,293
Long-term investments:				
Available-for-sale securities:				
Corporate bonds	2,857	—	(4)	2,853
U.S. Agency securities	1,900	—	(1)	1,899
Total long-term investments	4,757	—	(5)	4,752
Total investments	\$ 18,050	\$ 5	\$ (10)	\$ 18,045

The securities above were classified as available-for-sale as the Company did not enter into these investments for speculative purposes or intend to actively buy and sell the securities in order to generate profits on differences in price. The Company's primary investment objective is preservation of principal. During fiscal 2015, there were no purchases of available-for-sale securities, and maturities of available-for-sale securities were approximately \$15.0 million. During fiscal 2014, there were approximately \$18.5 million in purchases of available-for-sale securities and maturities of available-for-sale securities were approximately \$16.5 million. There were no other-than-temporary impairments of available-for-sale securities during fiscal 2015 and fiscal 2014. See Note 12 - Fair Value Measurements, for fair value disclosures relating to the Company's investments.

The following table summarizes the remaining contractual maturities of the Company's available-for-sale securities (in thousands):

	January 30, 2016
Due in one year or less	\$ 3,015
Due after one year through five years	—
Total investments	\$ 3,015

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NOTE 3 — Accounts Receivable

Accounts receivable consisted of the following (in thousands):

	January 30, 2016	January 31, 2015
Credit card receivables	\$ 2,126	\$ 1,868
Amounts due from landlords	1,576	1,505
Other receivables	365	627
Total accounts receivable	\$ 4,067	\$ 4,000

Credit card receivables relate to amounts due from payment processing entities that are collected one to five days after the related sale transaction occurs.

NOTE 4 — Merchandise Inventories

Merchandise inventories consisted of the following (in thousands):

	January 30, 2016	January 31, 2015
Merchandise - in store/eCommerce	\$ 31,751	\$ 33,534
Merchandise - in transit	10,730	11,784
Total merchandise inventories	\$ 42,481	\$ 45,318

NOTE 5 — Property, Equipment and Improvements, Net

Property, equipment and improvements, net consisted of the following (in thousands):

Description	January 30, 2016	January 31, 2015
Land	\$ 1,597	\$ 1,597

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Corporate office, distribution center and related building improvements	12,618	12,616
Store leasehold improvements	52,812	51,700
Store furniture and fixtures	74,513	70,083
Corporate office and distribution center furniture, fixtures and equipment	4,356	4,344
Computer and point of sale hardware and software	32,644	32,888
Construction in progress	5,781	2,721
Total property, equipment and improvements, gross	184,321	175,949
Less accumulated depreciation and amortization	(125,097)	(130,842)
Total property, equipment and improvements, net	\$ 59,224	\$ 45,107

Upon performing the annual impairment analysis, the Company determined that improvements and equipment at certain under-performing stores and at stores identified for closure were impaired. As a result, the Company recorded asset impairments related to property, equipment and improvements of \$0.3 million, \$0.2 million and \$0.1 million in fiscal 2015, fiscal 2014, and fiscal 2013, respectively. See Note 12 - Fair Value Measurements, for further detail.

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NOTE 6 — Accrued Liabilities

Other accrued liabilities consisted of the following (in thousands):

	January 30, 2016	January 31, 2015
Gift card and store credit liabilities	\$ 8,029	\$ 8,170
Accrued Friendship Rewards Program loyalty liability	3,838	3,731
Accrued income, sales and other taxes payable	1,622	1,578
Accrued occupancy-related expenses	3,017	3,957
Sales return reserve	1,309	1,077
Other accrued liabilities	6,755	5,475
Total accrued liabilities and other current liabilities	\$ 24,570	\$ 23,988

NOTE 7 — Credit Facility

The Company is party to an amended and restated credit agreement (the "Credit Facility") with Wells Fargo Bank, N.A. ("Wells Fargo"), as lender. The Credit Facility was most recently amended and extended on September 8, 2014. The current expiration date is September 2019.

The Credit Facility provides the Company with revolving credit loans of up to \$50.0 million in the aggregate, subject to a borrowing base formula based primarily on eligible credit card receivables, inventory and real estate, as such terms are defined in the Credit Facility, and up to \$10.0 million of which may be drawn in the form of standby and documentary letters of credit.

Borrowings under the Credit Facility will generally accrue interest at a rate ranging from 1.50% to 1.75% over the London Interbank Offered Rate ("LIBOR") or 0.50% to 0.75% over the Wells Fargo Prime Rate based on the amount of Average Daily Availability for the Fiscal Quarter immediately preceding each Adjustment Date, as such term is defined in the Credit Facility. The Company has the ability to select between the LIBOR or prime based rate at the time of the cash advance. The Credit Facility has an unused commitment fee of 0.25%.

The Credit Facility contains customary events of default and various affirmative and negative covenants. The sole financial covenant contained in the Credit Facility requires the Company to maintain Availability at least equal to the greater of (a) ten percent (10%) of the borrowing base or (b) \$3.0 million. In addition, the Credit Facility permits the

payment of dividends to the Company's stockholders if certain financial conditions are met. The Company was in compliance with all covenants and other financial provisions as of January 30, 2016.

The Company's obligations under the Credit Facility are secured by the assets of the Company and its subsidiaries. The Company has pledged substantially all of its assets as collateral security for the loans, including accounts owed to the Company, bank accounts, inventory, other tangible and intangible personal property, intellectual property (including patents and trademarks), and stock or other evidences of ownership of 100% of all of the Company's subsidiaries.

The Company had no revolving credit loan borrowings under the Credit Facility during fiscal 2015, fiscal 2014 or fiscal 2013. The total borrowing base at January 30, 2016, was approximately \$26.3 million. As of January 30, 2016, the Company had open on-demand letters of credit of approximately \$0.3 million. Accordingly, after reducing the borrowing base for the open letters of credit and the required minimum availability of the greater of \$3.0 million, or 10.0% of the borrowing base, the net availability of revolving credit loans under the Credit Facility was approximately \$23.0 million at January 30, 2016.

NOTE 8 — Stockholder's Equity and Stock-Based Compensation

Dividends

The Credit Facility allows payment of dividends to the Company's stockholders if certain financial conditions are met. No dividends were paid in fiscal 2015, fiscal 2014 or fiscal 2013.

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Stock-based compensation

The Company maintains the following stock plans approved by stockholders: the 2013 Directors' Equity Incentive Plan (the "2013 Plan") and the 2014 Stock Incentive Plan (the "2014 Plan"). Under the 2014 Plan and the 2013 Plan, the Company may grant options to purchase common stock to employees and non-employee members of the Board, respectively, at a price not less than 100% of the fair market value of the common stock on the option grant date. In general, options granted to employees vest over three years and are exercisable up to 10 years from the date of grant, and options granted to Directors vest ratably over approximately 30 months and are exercisable up to 10 years from the grant date. No options have been granted to Directors in the last three fiscal years.

The Company may also grant shares of restricted stock or units representing the right to receive shares of stock to its employees and non-employee members of the Board. The grantee cannot transfer the shares or units before the respective shares or units vest. Shares of nonvested restricted stock are considered to be currently issued and outstanding, but units representing the right to receive stock are not. Grants to employees of restricted stock or restricted stock units generally have original vesting schedules of one to three years, while restricted grants to Directors typically vest approximately one year after the date of grant.

Approximately 0.5 million and 3.9 million shares were authorized for issuance under the 2013 Plan and the 2014 Plan, respectively. As of January 30, 2016, there were approximately 0.2 million and 2.4 million shares available for future grant under the 2013 Plan and the 2014 Plan, respectively. In addition, as of January 30, 2016, there are approximately 1.5 million options outstanding which were granted to our Chief Executive Officer in 2012 outside of the above plans as an inducement to employment.

The total pre-tax compensation expense related to all stock-based awards for fiscal 2015, fiscal 2014 and fiscal 2013 was approximately \$1.6 million, \$2.3 million and \$2.8 million, respectively. Stock-based compensation expense is included in merchandise, buying and occupancy expenses for the buying and distribution employees, and in selling, general and administrative expense for all other employees.

Black-Scholes assumptions

The Company uses the Black-Scholes option-pricing model to value stock options for grants to employees and non-employee directors. Using this option-pricing model, the fair value of each stock option award is estimated on the date of grant and is expensed on a straight-line basis over the vesting period, as the stock options are subject to pro-rata vesting. The expected volatility assumption is based on the historical volatility of the Company's stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived

from the Company's historical experience and represents the period of time that awards are expected to be outstanding. The risk-free interest rate is based on the implied yield on a U.S. Treasury constant maturity with a remaining term equal to the expected term of the option granted.

The table below shows the weighted average assumptions relating to the valuation of stock options granted during fiscal 2015, fiscal 2014 and fiscal 2013.

	Fiscal 2015	Fiscal 2014	Fiscal 2013
Expected dividend yield	—%	—%	—%
Expected volatility	68.62%	59.59%	70.08-75.66%
Risk-free interest rate	1.73%	1.73%	0.76-1.37%
Expected term	5.00 years	5.00 years	5.00 years

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Stock-Based Compensation Activity — Stock Options

The following tables present a summary of stock option activity for fiscal 2015:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted Average Remaining Contractual Life
Outstanding, beginning of period	2,642,774	4.94		
Granted	15,609	1.39		
Exercised	—	—		
Canceled - Vested	(29,124)	3.43		
Canceled - Unvested (Forfeited)	(11,432)	5.86		
Outstanding, end of period	2,617,827	\$ 4.93	\$ 5,307	5.92 years
Exercisable, end of period	2,579,644	\$ 4.94	\$ —	5.89 years

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	689,920	\$ 2.08
Granted	15,609	0.80
Vested	(655,914)	2.00
Forfeited	(11,432)	3.33
Nonvested, end of period	38,183	2.58

The weighted average fair value for options granted during fiscal 2015, fiscal 2014 and fiscal 2013 was \$0.80, \$4.55 and \$3.80, respectively. The fair value of options vesting during fiscal 2015, fiscal 2014 and fiscal 2013 was approximately \$2.00, \$1.71 and \$2.06, respectively. The aggregate intrinsic value of options exercised during fiscal 2014 and fiscal 2013 was approximately \$4.6 million and \$0.2 million, respectively. There were no options exercised during fiscal 2015.

As of January 30, 2016, there was approximately \$0.02 million of total unrecognized compensation expense related to nonvested stock options granted, which is expected to be recognized over a weighted average period of approximately 1.51 years.

Stock-Based Compensation Activity — Restricted Stock

The following table presents a summary of restricted stock activity for fiscal 2015:

	Number of Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Nonvested, beginning of period	91,641	\$ 7.84	
Granted	212,224	4.50	
Vested	(73,836)	8.25	
Forfeited	(23,654)	5.42	
Nonvested, end of period	206,375	4.54	\$ 357

The weighted average fair value for restricted stock granted during fiscal 2015, fiscal 2014 and fiscal 2013 was \$4.50, \$8.89 and \$6.51, respectively. The total fair value of restricted stock vested during fiscal 2015, fiscal 2014 and fiscal 2013 was approximately \$0.6 million, \$0.8 million and \$0.6 million, respectively. The aggregate intrinsic value of restricted stock vested during fiscal 2015, fiscal 2014 and fiscal 2013 was approximately \$0.1 million, \$0.6 million and \$0.6 million, respectively.

As of January 30, 2016, there was approximately \$0.4 million of unrecognized stock-based compensation expense related to nonvested restricted stock awards, which is expected to be recognized over a weighted average period of approximately 1.2 years.

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Other Stock-Based Awards

During fiscal 2014, the Company made performance share awards to a limited number of executive-level employees which entitles these employees to receive a specified number of shares of the Company's common stock on vesting dates, provided that cumulative two-year and/or three-year targets are achieved. The cumulative targets involve operating margin, net sales growth and total stockholder return versus a specified peer group. Management estimates the fair value of performance shares awards based on the market price of the underlying stock on the date of grant for net sales growth and operating margin targets. The Company utilized a Monte Carlo simulation model to determine the fair value of the performance shares for total stockholder return. The target grants (as revised for non-vested forfeitures) currently approximate 96,000 and 143,000 shares, respectively, with a weighted average grant-date fair value of \$6.41 per share. The actual number of shares issued on the vesting dates could range from zero to 200% of target, depending upon actual performance achieved. Based on the market price of the Company's common stock at January 30, 2016, the maximum future value that could be awarded on the vesting dates was \$0.3 million for the two-year target awards and \$0.5 million for the three-year target awards.

During fiscal 2015, the Company made performance share awards to a limited number of executive-level employees which entitles these employees to receive a specified number of shares of the Company's common stock on vesting dates, provided that cumulative two-year targets are achieved. The cumulative targets involve operating margin and net sales growth. Management estimates the fair value of performance shares based on the market price of the underlying stock on the date of grant. The target grants (as revised for non-vested forfeitures) currently approximate 157,000 shares with a weighted average grant-date fair value of \$5.29 per share. The actual number of shares issued on the vesting date could range from zero to 200% of target, depending upon actual performance achieved. Based on the market price of the Company's stock at January 30, 2016, the maximum future value that could be awarded on the vesting dates was \$0.5 million.

NOTE 9 — Other Income (Expense)

Other income (expense) consisted of the following for the periods identified below (in thousands):

	Fiscal 2015	Fiscal 2014	Fiscal 2013
Interest expense	\$ (168)	\$ (258)	\$ (253)
Interest income, net	53	68	62
Gain (loss) on investments carried at fair value	—	(1)	—
Total other income (expense)	\$ (115)	\$ (191)	\$ (191)

NOTE 10 — Income Taxes

The provision for income taxes consisted of the following for the fiscal periods identified below (in thousands):

	Fiscal 2015	Fiscal 2014	Fiscal 2013
Current:			
Federal tax expense (benefit)	\$ —	\$ (248)	\$ 107
State tax expense (benefit)	172	283	(112)
Current tax expense (benefit)	172	35	(5)
Deferred tax expense (benefit)	37,543	(37,937)	—
Income tax provision (benefit)	\$ 37,715	\$ (37,902)	\$ (5)

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The following presents a reconciliation of income tax computed at the U.S. statutory rate to the effective income tax rate for the fiscal periods ended:

	January 30, 2016	January 31, 2015	February 1, 2014	
Federal income tax at statutory rate	35.0	% 35.0	% 35.0	%
State income tax, net of federal benefit	3.1	4.6	0.4	
Change in valuation allowance	(373.0)	(447.6)	(33.7)	
Reserve for unrecognized tax benefits	(0.4)	0.6	(2.4)	
Tax credits	4.8	—	—	
Other	(1.0)	(3.4)	0.6	
Effective income tax rate	(331.5)	% (410.8)	% (0.1)	%

Deferred income taxes are provided for temporary differences between the basis of assets and liabilities for financial reporting purposes and income tax purposes. Deferred tax assets and liabilities as of January 31, 2015, were classified as current and noncurrent on the basis of the classification of the related asset or liability for financial reporting. In November 2015, the FASB issued ASU 2015-17 "Income Taxes." ASU 2015-17 requires that deferred income tax liabilities and assets be classified as non-current in a statement of financial position. The Company elected early adoption of this guidance for the fiscal year ended January 30, 2016, on a prospective basis. The adoption of this ASU allows the Company to simplify its presentation of deferred income tax liabilities and assets. Prior periods were not retrospectively adjusted.

Significant components of the Company's deferred income tax assets and liabilities are as follows (in thousands):

	January 30, 2016	January 31, 2015
Deferred tax assets:		
Accrued Friendship Rewards loyalty liability	\$ 1,202	\$ 1,180
Accrued gift card liability	464	298
Merchandise inventories	1,557	1,291
Deferred rent and deferred lease incentives	7,991	6,426
Stock-based compensation expense	2,535	2,152
Net operating loss carryforwards	29,854	24,875
Contribution carryforwards	207	159
Tax credit carryforwards	1,276	706
Depreciation and amortization	—	46
Other accrued liabilities	1,440	1,257
Total deferred tax assets	46,526	38,390
Less: Valuation allowance	(42,021)	(28)
Deferred tax assets, net of valuation allowance	4,505	38,362
Deferred tax liabilities:		
Depreciation and amortization	(3,504)	—

Other	(608)	(424)
Total deferred tax liabilities	(4,112)	(424)
Net deferred tax assets	\$ 393	\$ 37,938

Deferred income tax assets represent potential future income tax benefits. Realization of these assets is ultimately dependent upon future taxable income. ASC 740 Income Taxes requires that deferred tax assets be reduced by a valuation allowance if, based on all available evidence, it is considered more likely than not that some or all of the recorded deferred tax assets will not be realized in a future period. Forming a conclusion that a valuation allowance is not needed is difficult when negative evidence such as cumulative losses exists. As a result of management's evaluation in fiscal 2011, a non-cash provision of \$10.6 million was recognized to establish a valuation allowance against deferred tax assets as there was insufficient positive evidence to overcome the negative evidence related to the Company's cumulative losses. In the fourth quarter of fiscal 2014, the Company released the vast majority of the valuation allowance based on two consecutive years of profitability, three years of cumulative positive earnings achieved in the fourth quarter of fiscal 2014 and the Company's forecast of continued profitability in fiscal 2015. A small valuation allowance was

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retained for state net operating loss carryforwards that may expire before they are utilized. The release of the valuation allowance resulted in a \$41.3 million benefit to the income tax provision in fiscal 2014.

Management continued to monitor the realizability of the deferred tax assets in fiscal 2015. The release of the valuation allowance in fiscal 2014 assumed the Company would continue to generate future profits. The fiscal 2015 loss had an impact on the expected amount of the 36 month cumulative loss. Although management's evaluation considered the effects of improved sales trends that may result in future taxable income, estimates such as these are inherently subjective. Without significant positive evidence to overcome the weight of possible future cumulative losses, the Company established a valuation allowance against its deferred tax assets in the fourth quarter of fiscal 2015. A non-cash provision of \$37.5 million was recognized to establish the valuation allowance. A small deferred tax asset was allowed related to certain state tax benefits.

As of January 30, 2016, the Company has federal and state net operating loss carryforwards which will reduce future taxable income. Approximately \$29.8 million in net federal tax benefits are available from these federal loss carryforwards of approximately \$85.0 million, and an additional \$1.3 million is available in net tax credit carryforwards. Included in the federal net operating loss is approximately \$5.3 million of loss generated by deductions related to equity-based compensation, the tax effect of which will be recorded to additional paid in capital when utilized. The state loss carryforwards will result in net state tax benefits of approximately \$2.1 million. The federal net operating loss carryovers will expire in October 2032 and beyond. The Company has analyzed equity ownership changes and determined its net operating losses will not be limited under IRC Section 382. The state net operating loss carryforwards will expire in November 2016 and beyond. Additionally, the Company has charitable contribution carryforwards that will expire in 2016 and beyond.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows (in thousands):

Balance at February 2, 2013	\$ 993
Additions based on tax positions related to the current year	152
Reductions for tax positions of previous years	(152)
Reductions for tax positions of previous years due to lapse of applicable statute of limitations	(236)
Balance at February 1, 2014	757
Additions based on tax positions related to the current year	180
Additions for tax positions of previous years	24
Reductions for tax positions of previous years due to lapse of applicable statute of limitations	(85)
Balance at January 31, 2015	876
Additions based on tax positions related to the current year	329
Additions for tax positions of previous years	16
Reductions for tax positions of previous years	(70)
Reductions for tax positions of previous years due to lapse of applicable statute of limitations	(42)
Balance at January 30, 2016	\$ 1,109

The Company's liability for unrecognized tax benefits is recorded within other non-current liabilities. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of January 30, 2016 and January 31, 2015 were \$0.6 million and \$0.6 million, respectively.

Interest and penalties related to unrecognized tax benefits of approximately \$64 thousand, \$53 thousand and \$47 thousand were recognized as components of income tax expense in fiscal 2015, fiscal 2014 and fiscal 2013, respectively. At January 30, 2016 and January 31, 2015, approximately \$0.2 million and \$0.2 million, respectively, were accrued for the potential payment of interest and penalties.

The Company and its subsidiaries are subject to U.S. federal income taxes and the income tax obligations of various state and local jurisdictions. In April 2015, the Company settled the IRS examination of the fiscal 2011 tax year. The settlement was related to certain issues which the Company had previously reflected net of tax within deferred tax assets. The settlement did not result in any cash payments nor any impact to tax expense. The Company is currently under exam by the IRS for fiscal 2013. Periods after the fiscal 2012 transition period remain subject to examination by the Internal

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Revenue Service. With few exceptions, the Company is not subject to state income tax examination by tax authorities for taxable years prior to fiscal 2011. As of January 30, 2016, the Company had no other ongoing audits in various jurisdictions and does not expect the liability for unrecognized tax benefits to significantly increase or decrease in the next twelve months.

NOTE 11 — Earnings Per Share

The calculation of EPS shown below excludes the income attributable to participating securities from the numerator.

	Fiscal 2015	Fiscal 2014	Fiscal 2013
Numerator (in thousands):			
Net (loss) income attributable to Christopher & Banks Corporation	\$ (49,094)	\$ 47,126	\$ 8,690
Income allocated to participating securities	—	(155)	(32)
Net (loss) income available to common stockholders	\$ (49,094)	\$ 46,971	\$ 8,658
Denominator (in thousands):			
Weighted average common shares outstanding - basic	36,886	36,819	36,246
Dilutive shares	—	934	898
Weighted average common and common equivalent shares outstanding - diluted	36,886	37,753	37,144
Net (loss) earnings per common share:			
Basic	\$ (1.33)	\$ 1.28	\$ 0.24
Diluted	\$ (1.33)	\$ 1.24	\$ 0.23

Total stock options of approximately 2.3 million, 0.3 million and 0.5 million were excluded from the shares used in the computation of diluted earnings per share for fiscal 2015, fiscal 2014 and fiscal 2013, respectively, as they were anti-dilutive.

NOTE 12 — Fair Value Measurements

Assets that are Measured at Fair Value on a Recurring Basis:

The following tables provide information by level for the Company's available-for-sale securities that were measured at fair value on a recurring basis (in thousands):

As of January 30, 2016:	Fair Value	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Short-term investments:				
Corporate bonds	2,810	—	2,810	—
Municipal bonds	205	—	205	—
Total assets	\$ 3,015	\$ —	\$ 3,015	\$ —

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As of January 31, 2015:	Fair Value	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Short-term investments:				
Certificates of deposit	\$ 4,078	\$ —	\$ 4,078	\$ —
Commercial paper	7,384	—	7,384	—
Corporate bonds	1,616	—	1,616	—
Municipal bonds	215	—	215	—
Total current assets	13,293	—	13,293	—
Long-term investments:				
Corporate bonds	2,853	—	2,853	—
U.S. Agency securities	1,899	—	1,899	—
Total non-current assets	4,752	—	4,752	—
Total assets	\$ 18,045	\$ —	\$ 18,045	\$ —

As of January 30, 2016, the Company's available-for-sale securities were valued based on quoted prices for similar assets in active markets or quoted prices for identical or similar assets in markets in which there were fewer transactions. There were no transfers of assets between Level 1 and Level 2 of the fair value measurement hierarchy during fiscal 2015. Consistent with Company policy, transfers into levels and transfers out of levels are recognized on the date of the event or when a change in circumstances causes a transfer.

Assets that are Measured at Fair Value on a Non-recurring Basis:

The following table summarizes certain information for non-financial assets for the fiscal periods ended January 30, 2016 and January 31, 2015, that are measured at fair value on a non-recurring basis in periods subsequent to an initial recognition period. The Company places amounts into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

	Fiscal Year Ended	Fiscal Year Ended
Long-Lived Assets Held and Used (in thousands):	January 30, 2016	January 31, 2015
Carrying value	\$ 356	\$ 270
Fair value measured using Level 3 inputs	\$ 75	\$ 54
Impairment charge	\$ 281	\$ 216

All of the fair value measurements included in the table above were based on significant unobservable inputs (Level 3). The Company determines fair value for measuring assets on a non-recurring basis using a discounted cash flow approach as discussed in Note 1, Nature of Business and Significant Accounting Policies. In determining future cash flows, the Company uses its best estimate of future operating results, which requires the use of significant estimates

and assumptions, including estimated sales, merchandise margin and expense levels, and the selection of an appropriate discount rate; therefore, differences in the estimates or assumptions could produce significantly different results. General economic uncertainty impacting the retail industry and continuation of recent trends in company performance makes it reasonably possible that additional long-lived asset impairments could be identified and recorded in future periods.

The fair value measurement of the long-lived assets encompasses the following significant unobservable inputs:

Unobservable Inputs	Range	
	Fiscal 2015	Fiscal 2014
Weighted Average Cost of Capital (WACC)	15%	15%
Annual sales growth	0% to 8%	(3%) to 3.5%

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NOTE 13 — Employee Benefit Plans and Employment Agreements

401(k) Plan

The Company has established a defined contribution plan qualified under Section 401(k) of the Internal Revenue Code for the benefit of all employees who meet certain eligibility requirements, which are primarily age, length of service and hours of service. The plan allows eligible employees to invest from 1% to 60% of their compensation, subject to dollar limits as established by the federal government. The plan allows for discretionary Company matching contributions. Effective March 8, 2009, the Company discontinued its discretionary matching contributions. The Company reinstated its discretionary matching contributions during fiscal 2013, and made matching contributions totaling approximately \$0.5 million, \$0.5 million and \$0.2 million in fiscal 2015, fiscal 2014 and fiscal 2013, respectively. The Company does not offer any other post-retirement, post-employment or pension benefits to directors or employees.

Severance Agreements

In April 2014, the Company entered into the same form of severance agreements (the “Severance Agreement”) with each of its executive officers, other than its Chief Executive Officer and President, and in November 2015 with its recently hired Vice President, Controller (each an “Executive”). Per the terms of the Severance Agreement, the Executive is and remains an at-will employee, and thus may be terminated at any time with or without “Cause”, as such term is defined in the Severance Agreement. If the Executive is involuntarily terminated by the Company without “Cause”, and executes a general release of claims in favor of the Company, the Company will be obligated to pay the Executive a severance payment equal to twelve months of the Executive’s highest annual salary at any time during the twelve months preceding the date of termination. In addition, the Severance Agreement provides that the Company will pay the Company portion of COBRA health and dental premiums for up to twelve months after termination.

The Severance Agreement also provides that, notwithstanding the foregoing, if, 180 days prior to, or twelve months after a “Change in Control” the Executive is terminated without “Cause” or resigns for “Good Reason”, as such terms are defined in the Severance Agreement, then the Executive, based on his or her position, shall be entitled to receive a severance payment in one lump sum and adjusted for any severance payments previously made by the Company, generally equal to the following:

Executive Vice Presidents: The sum of (A) eighteen months of his or her highest annual salary at any time during the twelve month period preceding the date of termination; (B) 1.5 times his or her then current on-target bonus; and (C) the value of eighteen months of the Company portion of COBRA health and dental premiums, unless the executive is eligible for a government subsidy with respect to such COBRA benefits.

Senior Vice Presidents and Vice President, Controller: The sum of (A) twelve months of his or her highest annual salary at any time during the twelve month period preceding the date of termination; (B) 1.0 times his or her then current on-target bonus; and (C) the value of twelve months of the Company portion of COBRA health and dental premiums, unless the executive is eligible for a government subsidy with respect to such COBRA benefits.

The Severance Agreement also provides for a “cutback” such that any severance payment shall be reduced below the amount that would trigger an excise tax liability. The Company is not obligated to pay an “excise tax” under Section 4999 of the Internal Revenue Code of 1986, as amended, and there are no tax “gross-up” provisions in the Severance Agreement.

Additionally, the Severance Agreement contains a provision prohibiting the Executive during the period of his or her employment and, for a period of twelve months after the Executive’s termination, from (i) engaging in certain competitive activities; (ii) soliciting employees to either leave their employment with the Company or its affiliates or to establish a relationship with a “Competitor” (as such term is defined in the Severance Agreement); or (iii) soliciting,

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engaging or inducing a vendor or supplier of the Company or its affiliates to sever or materially alter its relationship with the Company or to establish a relationship with a Competitor.

As of January 30, 2016 and January 31, 2015, our severance liability for Executive Officers was not material.

Management Retention Plan

On July 5, 2012, the Compensation Committee (the “Committee”) of the Board approved a Management Retention Plan (the “Plan”) and the entry into of retention agreements (the “Retention Agreements”), issued pursuant to the Plan, with certain members of management, including the Chief Financial Officer and one additional “named executive officer,” as determined pursuant to Item 402 of Regulation S-K for purposes of the Company’s Proxy Statement filed May 15, 2012 (the “Proxy Statement”). The Company had received an unsolicited offer to acquire the Company, which the Board and the Committee recognized can be highly disruptive to the Company’s day-to-day operations, and may cause certain key members of management to consider other employment opportunities. In order to ensure that the most critical members of management remain fully engaged and focused on driving improved performance at the Company for the benefit of the Company’s stockholders, the Committee approved and adopted the Plan and the Retention Agreements.

The Retention Agreements provided for a lump-sum cash award. The term of the award was for one year from adoption, unless accelerated due to a change in control. Pursuant to the Plan and the Retention Agreements, if there were a change in control event prior to the completion of the term, and a recipient’s employment were terminated without “cause” or with “good reason” (as each such term is defined in the Plan) prior to the completion of the term, the recipient would receive the award payment in full upon such termination.

The amount of the award for each of the recipients was equal to such recipient’s annualized base salary without regard to bonuses and other incentive compensation in effect immediately prior to the distribution, but not less than such recipient’s highest annualized base salary in effect within the twelve month period immediately preceding the change in control.

The awards under the Plan were paid in July 2013 and the Plan is no longer in force or effect.

NOTE 14 — Lease Commitments

The Company leases its store locations and vehicles under operating leases. The store lease terms, including rental period, renewal options, escalation clauses and rent as a percentage of sales, vary among the leases. Most store leases require the Company to pay real estate taxes and common area maintenance charges.

Total rental expense for all leases was as follows for the fiscal periods ended (in thousands):

	Fiscal 2015	Fiscal 2014	Fiscal 2013
Minimum rent	\$ 37,723	\$ 38,720	\$ 32,547
Contingent rent	2,200	3,914	7,602
Maintenance, taxes and other	19,159	17,577	17,766
Amortization of deferred lease incentives	(2,105)	(2,229)	(2,383)
Total rent expense	\$ 56,977	\$ 57,982	\$ 55,532

Future minimum rental payments as of January 30, 2016, and the estimated timing and effect that such obligations are expected to have on the Company's liquidity and cash flows for operating leases are as follows (in thousands):

	Payments Due by Period				Total
	Fiscal 2016	Fiscal 2017-2018	Fiscal 2019-2020	Fiscal 2021 and thereafter	
Contractual Obligations					
Retail store facility operating leases	\$ 38,414	\$ 58,808	\$ 43,957	\$ 68,361	\$ 209,540
Vehicle operating leases	224	141	—	—	365
Total obligations	\$ 38,638	\$ 58,949	\$ 43,957	\$ 68,361	\$ 209,905

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NOTE 15 — Legal Proceedings

The Company is subject, from time to time, to various claims, lawsuits or actions that arise in the ordinary course of business. Although the amount of any liability that could arise with respect to any current proceedings cannot, in management's opinion, be accurately predicted, any such liability is not expected to have a material adverse impact on the Company's financial position, results of operations or liquidity.

NOTE 16 — Sources of Supply

The Company's ten largest vendors accounted for approximately 70% of total merchandise purchases in each of the prior three fiscal years, respectively. One of the Company's suppliers accounted for approximately 30%, 28%, and 19% of merchandise purchases during fiscal 2015, fiscal 2014 and fiscal 2013, respectively. Another supplier accounted for approximately 10%, 10% and 11% of merchandise purchases during fiscal 2015, fiscal 2014 and fiscal 2013, respectively. Although the Company has strong relationships with these vendors, there can be no assurance that these relationships can be maintained in the future or that these vendors will continue to supply merchandise to the Company. If there should be any significant disruption in the supply of merchandise from these vendors, management believes that production could be shifted to other suppliers so as to continue to secure the required volume of product. Nevertheless, it is possible that any significant disruption in supply could have a material adverse impact on the Company's financial position or results of operations.

NOTE 17 — Segment Reporting

In the table below, Retail Operations includes activity generated by the Company's retail store locations (Missy Petite Women ("MPW"), Outlet stores, Christopher & Banks, and C.J. Banks) as well as the eCommerce business. Retail Operations only includes net sales, merchandise gross margin and direct store expenses with no allocation of corporate overhead as that is the information used by the chief operating decision maker to evaluate performance and to allocate resources. The Corporate/Administrative balances include supporting administrative activity at the corporate office and distribution center facility and are included to reconcile the amounts to the consolidated financial statements.

For the fiscal period ended January 30, 2016, long-lived assets with a carrying amount of \$0.4 million were written down to their fair value of \$0.1 million resulting in an impairment charge of \$0.3 million. For the fiscal period ended January 31, 2015, long-lived assets with a carrying amount of \$0.3 million were written down to their fair value of \$0.1 million resulting in an impairment charge of \$0.2 million. For the fiscal period ended February 1, 2014, long-lived assets with a carrying amount of \$0.1 million were written down to their fair value of \$5 thousand resulting in an impairment charge of \$0.1 million. The impairment costs for each fiscal period related to store-level asset

impairment charges are included in the operating income for the Retail Operations segment.

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Business Segment Information

(in thousands)

	Retail Operations	Corporate/ Administrative	Consolidated
Fiscal 2015			
Net sales	\$ 383,828	\$ —	\$ 383,828
Depreciation and amortization	9,594	2,454	12,048
Operating income (loss)	41,149	(52,413)	(11,264)
Total assets	99,530	51,360	150,890
Fiscal 2014			
Net sales	\$ 418,584	\$ —	\$ 418,584
Depreciation and amortization	9,166	2,620	11,786
Operating income (loss)	60,830	(51,415)	9,415
Total assets	95,538	100,499	196,037
Fiscal 2013			
Net sales	\$ 435,754	\$ —	\$ 435,754
Depreciation and amortization	9,757	3,411	13,168
Operating income (loss)	63,633	(54,757)	8,876
Total assets	95,631	53,347	148,978

NOTE 18 — Related-Party Transactions

We, or our subsidiaries, have for the past several years purchased goods from or through G-III Apparel Group Ltd. (“G-III”) or its related entities. On January 3, 2011, Morris Goldfarb, the Chairman of the Board and Chief Executive Officer of G-III, became a director of the Company. On June 27, 2013, Mr. Goldfarb ceased to be a member of the Board as he did not stand for re-election at the Company’s annual meeting of stockholders in June 2013. In fiscal 2014 and fiscal 2013, payments made by us and our subsidiaries to G-III and its related entities aggregated approximately \$1.1 million and \$1.2 million, respectively. As of January 31, 2015, we had a balance due to G-III or its related entities of approximately \$12 thousand. We have evaluated the terms and considerations for such related party transactions and have determined the terms are comparable to amounts that would have to be paid to, or received from, independent third-parties. G-III was not considered a related party during fiscal 2015.

NOTE 19 — Quarterly Financial Data (Unaudited)

(in thousands, except per share data)	Fiscal 2015 Quarters (1)			
	First	Second	Third	Fourth
Net sales	\$ 91,621	\$ 93,997	\$ 103,641	\$ 94,569
Operating (loss) income	(2,496)	(1,710)	335	(7,393)
Net loss	(1,442)	(710)	(315)	(46,627)
Net loss per share data:				
Basic	\$ (0.04)	\$ (0.02)	\$ (0.01)	\$ (1.26)
Diluted	\$ (0.04)	\$ (0.02)	\$ (0.01)	\$ (1.26)

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(in thousands, except per share data)	Fiscal 2014 Quarters (1)			Fourth
	First	Second	Third	(2)
Net sales	\$ 103,366	\$ 106,633	\$ 110,610	\$ 97,975
Operating income (loss)	2,792	3,250	9,344	(5,971)
Net income	2,616	3,362	8,983	32,164
Net income per share data:				
Basic	\$ 0.07	\$ 0.09	\$ 0.24	\$ 0.87
Diluted	\$ 0.07	\$ 0.09	\$ 0.24	\$ 0.86

- (1) The summation of quarterly per share data may not equate to the calculation for the full fiscal year as quarterly calculations are performed on a discrete basis.
- (2) As described in Note 1, in connection with the preparation of the Company's consolidated financial statements for the fiscal year ended January 31, 2015, the Company determined that its calculation of deferred rent expense was incorrect. The Company corrected the error in the fourth quarter of fiscal 2014, which resulted in an increase to rent expense of approximately \$3.6 million. The effect of the correction was to decrease operating income for the 2014 fourth quarter by approximately \$3.6 million; net income for the fourth quarter was reduced by approximately \$2.2 million. The Company concluded that this correction was immaterial to the related consolidated financial statements as a whole.

NOTE 20 — Subsequent Events

In the first quarter of fiscal 2016, the Company will incur approximately \$1.6 million in legal and other professional advisory fees in connection with shareholder activism related to the Company's 2016 annual meeting of shareholders that was settled subsequent to the fiscal year end.

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

There are no matters which are required to be reported under Item 9.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosure. Under the supervision and with the participation of the Company's management, including its CEO and CFO, management evaluated the effectiveness of the Company's disclosure controls and procedures as of January 30, 2016. Based on that evaluation, the Company's CEO and its CFO concluded that the Company's disclosure controls and procedures (as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) were effective as of January 30, 2016.

Management Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rule 13a-15(f) and 15d-15(f) of the Securities Exchange Act. Under the supervision and with the participation of the Company's management, including the CEO and CFO, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control- Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management's testing and evaluation under the framework in Internal Control - Integrated Framework (2013), management concluded that our internal control over financial reporting was designed and operated effectively as of January 30, 2016.

KPMG LLP, our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of January 30, 2016, and has issued their report which is included in Item 8 of this Annual Report.

Prior Material Weaknesses

Based on our assessment of the effectiveness of our internal control over financial reporting as of January 31, 2015, management identified a material weakness. We concluded that we did not adequately design controls to communicate all significant terms for lease amendments, and review the terms of new or modified store leases. This led to the Company's use of inaccurate lease information in the accounting for rent expense, analysis of potential impairment of long-lived assets and in the calculation of certain deferred tax assets. The material weakness resulted in misstatements in rent expense that were corrected in the fourth quarter of fiscal 2014, prior to the issuance of the Company's consolidated financial statements. Furthermore, a reasonable possibility existed that a material misstatement in the Company's consolidated financial statements would not have been prevented or detected on a timely basis.

In order to remediate the material weakness, we improved our policies and procedures relating to the recognition and measurement of new and modified lease agreements. Management added new controls to i) ensure communication of new and modified leases, ii) verify proper recording of rent expense and related balances, and iii) substantiate proper disclosure of all lease commitments. As a result of these actions and the related controls and testing, management concluded that the material weakness over the communication of all significant terms for lease amendments and review of the terms of new and modified store leases was remediated as of January 30, 2016. Management will continue to assess and improve lease controls.

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Inherent Limitations on Control Systems

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, will be or have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

The material weakness identified in the 2014 Annual Report on Form 10-K was remediated as of January 30, 2016. There have been no additional changes in our internal control over financial reporting that occurred during the quarter ended January 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

There are no matters which are required to be reported under Item 9B.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information regarding our directors required by Item 10 is incorporated herein by reference to the section entitled, "Item 1-Election of Directors," in the Proxy Statement. Information regarding our executive officers is included in Part I, Item 4A of this Annual Report on Form 10-K in the section entitled "Executive Officers of the Registrant." Information concerning compliance with Section 16(a) of the Exchange Act is included in the Proxy Statement under the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance," and such information is incorporated herein by reference. Information regarding our Audit Committee and audit committee financial experts is included in the Proxy Statement under the section entitled "Meetings and Committees of the Board of Directors - The

Audit Committee,” and such information is incorporated by reference.

We have adopted a Code of Conduct (the “Code”) applicable to all of our employees, directors and officers, including our principal executive officer, principal financial officer, principal accounting officer, controller and other employees performing similar functions. The Code is available on our website at www.christopherandbanks.com — under the “Investor Relations” link and then the “Corporate Governance” link — and is available in print to any stockholder who requests a copy from our Corporate Secretary. Any changes or amendments to, or waiver from, a provision of the Code that applies to our principal executive officer, principal financial officer, principal accounting officer, controller or persons performing similar functions will be posted on our website at the address and location specified above.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the sections entitled “Executive Compensation,” “Meetings and Committees of the Board of Directors — Compensation Program for Non-Employee Directors” and “Meetings and Committees of the Board of Directors — Non-Employee Director Compensation for Fiscal 2015” in the Proxy Statement.

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

The information required by Item 12 is incorporated herein by reference to the sections entitled “Security Ownership” and “Equity Compensation Plan Information” in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated herein by reference to the sections entitled “Certain Relationships and Related Transactions” and “Information Regarding the Board and Corporate Governance — Director Independence” in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference to the sections entitled “Audit Committee Report and Payment of Fees to Our Independent Registered Public Accounting Firm — Independent Registered Public Accounting Firm Fees” and “Audit Committee Report and Payment of Fees to Our Independent Registered Public Accounting Firm — Auditor Services Pre-Approval Policy” in the Proxy Statement.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this Report:

(1) Financial Statements:

	Page
<u>Reports of Independent Registered Public Accounting Firm</u>	42
<u>Consolidated Balance Sheets</u>	44
<u>Consolidated Statements of Operations</u>	45
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	46
<u>Consolidated Statements of Stockholders' Equity</u>	47
<u>Consolidated Statements of Cash Flows</u>	48
<u>Notes to Consolidated Financial Statements</u>	49

All schedules omitted are not applicable or the required information is shown in the financial statements or notes thereto.

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(3) Exhibits:

Exhibit	Description
3.1	Restated Certificate of Incorporation of Christopher & Banks Corporation (incorporated herein by reference to Exhibit 4.1 to Registration Statement on form S-8 (Registration No. 333-174509) filed May 26, 2011)
3.2	Seventh Amended and Restated By-Laws of Christopher & Banks Corporation, effective December 20, 2013 (incorporated herein by reference to Exhibit 3.1 to Current Report on Form 8-K filed December 24, 2013)
3.3	First Amendment to Seventh Amended and Restated By-Laws of Christopher & Banks Corporation, effective February 24, 2016 (incorporated herein by reference to Exhibit 3.1 to Current Report on Form 8-K filed February 29, 2016)
4.1	Form of certificate for shares of common stock of Christopher & Banks Corporation (incorporated herein by reference to Exhibit 4.1 to Quarterly Report on Form 10-Q for the fiscal quarter ended August 28, 2010 filed October 7, 2010)
10.1	Christopher & Banks, Inc. Retirement Savings Plan (incorporated herein by reference to Registration Statement on Form S-1) (Registration No. 33-45719)**
10.2	1997 Stock Incentive Plan (incorporated herein by reference to Exhibit 99.1 to Form S-8 (Registration No. 333-95109) filed January 20, 2000)**
10.3	Amendment No. 1 to 1997 Stock Incentive Plan (incorporated herein by reference to Exhibit 99.1 to Form S-8 (Registration No. 333-95553) filed January 27, 2000)**
10.4	Second Amendment to the 1997 Stock Incentive Plan dated as of July 28, 1999 (incorporated herein by reference to Exhibit 10.28 to Quarterly Report on Form 10-Q for the fiscal quarter ended August 28, 1999 filed October 12, 1999)**
10.5	Third Amendment to the 1997 Stock Incentive Plan dated as of July 26, 2000 (incorporated herein by reference to Exhibit 10.40 to Annual Report on Form 10-K for the fiscal year ended March 2, 2002 filed May 29, 2002)**
10.6	Fourth Amendment to the 1997 Stock Incentive Plan dated as of August 1, 2001 (incorporated herein by reference to Exhibit 10.41 to Annual Report on Form 10-K for the fiscal year ended March 2, 2002 filed May 29, 2002)**
10.7	Form of Qualified Stock Option Agreement under our 1997 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.7 to Annual Report on Form 10-K for the fiscal year ended February 26, 2011 filed May 12, 2011)**
10.8	Form of Nonqualified Stock Option Agreement under our 1997 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.8 to Annual Report on Form 10-K for the fiscal year ended February 26, 2011 filed May 12, 2011)**
10.9	Amended and Restated Christopher & Banks Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 to Current Report on Form 8-K filed August 5, 2008)**
10.10	Second Amended and Restated Christopher & Banks Corporation 2005 Stock Incentive Plan, effective July 27, 2010 (incorporated herein by reference to Exhibit 10.2 to Current Report on 8-K filed August 2, 2010)**
10.11	Form of Qualified Stock Option Agreement under our 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.15 to Annual Report on Form 10-K for the fiscal year ended February 26, 2011 filed May 12, 2011)**

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- 10.12 Form of Qualified Stock Option Agreement under our 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.16 to Annual Report on Form 10-K for the fiscal year ended February 26, 2011 filed May 12, 2011)**
- 10.13 Form of Nonqualified Stock Option Agreement under our 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.17 to Annual Report on Form 10-K for the fiscal year ended February 26, 2011 filed May 12, 2011)**
- 10.14 Form of Nonqualified Stock Option Agreement under our 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.18 to Annual Report on Form 10-K for the fiscal year ended February 26, 2011 filed May 12, 2011)**
- 10.15 Form of Nonqualified Stock Option Agreement under our Second Amended and Restated 2005 Stock Incentive Plan (used for awards granted beginning April 2011) (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed April 15, 2011)**
- 10.16 Form of Restricted Stock Agreement (Time-Based Vesting) under our Second Amended and Restated 2005 Stock Incentive Plan (used for awards granted beginning April 2011) (incorporated herein by reference to Exhibit 10.2 to Current Report on Form 8-K filed April 15, 2011)**
- 10.17 Form of Restricted Stock Agreement (Performance-Based Vesting) under our Second Amended and Restated 2005 Stock Incentive Plan (used for awards granted beginning April 2011) (incorporated herein by reference to Exhibit 10.3 to Current Report on Form 8-K filed April 15, 2011)**
- 10.18 Amended and Restated Christopher & Banks Corporation 2006 Equity Incentive Plan for Non-Employee Directors (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed August 5, 2008)**
- 10.19 Second Amended and Restated Christopher & Banks Corporation 2006 Equity Incentive Plan for Non-Employee Directors, effective July 27, 2010 (incorporated herein by reference to Exhibit 10.1 to Current Report on 8-K filed August 2, 2010)**
- 10.20 Form of Non-Qualified Stock Option Agreement under our 2006 Equity Incentive Plan for Non-Employee Directors (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed August 1, 2006)**
- 10.21 Form of Restricted Stock Agreement under our 2006 Equity Incentive Plan for Non-Employee Directors (incorporated herein by reference to Exhibit 10.2 to Current Report on Form 8-K filed August 1, 2006)**
- 10.22 Amended and Restated Credit and Security Agreement by and between Christopher & Banks, Inc., Christopher & Banks Company and Christopher & Banks Services Company and Wells Fargo Bank, National Association, acting through its Wells Fargo Business Credit Operating Division dated November 4, 2005 (incorporated by reference to Exhibit 10.48 to Annual Report on Form 10-K for the fiscal year ended February 26, 2011 filed May 12, 2011)
- 10.23 Form of Stock Option Agreement (Nonqualified Stock Option) under the Second Amended and Restated Christopher & Banks Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed March 30, 2012)**
- 10.24 Form of Performance-Based Restricted Stock Agreement under the Second Amended and Restated Christopher & Banks Corporation 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 to Current Report on Form 8-K filed March 30, 2012)**
- 10.25 Second Amended and Restated Credit Agreement, dated as of July 12, 2012, among Christopher & Banks Corporation, as the Lead Borrower For The Borrowers Named Herein, The Guarantors from time to time party hereto, Wells Fargo Bank, National Association, as Lender (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed July 16, 2012)

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- 10.26 Security Agreement by Christopher & Banks Corporation, as Lead Borrower, and The Other Borrowers and Guarantors Party Hereto From Time to Time, and Wells Fargo Bank, National Association, as Lender, dated as of July 12, 2012 (incorporated herein by reference to Exhibit 10.2 to Current Report on Form 8-K filed July 16, 2012)
- 10.27 Employment Agreement between Christopher & Banks Corporation and LuAnn Via, dated as of October 29, 2012 (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed November 1, 2012)**
- 10.28 Annual Incentive Non-Qualified Stock Option Agreement effective as of November 26, 2012 between LuAnn Via and Christopher & Banks Corporation (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K/A filed November 29, 2012)**
- 10.29 Long-Term Incentive Non-Qualified Stock Option Agreement effective as of November 26, 2012 between LuAnn Via and Christopher & Banks Corporation (incorporated herein by reference to Exhibit 10.2 to Current Report on Form 8-K/A filed November 29, 2012)**
- 10.30 Form of Christopher & Banks Corporation Indemnification Agreement (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed February 1, 2013)**
- 10.31 Form of Time-Based Restricted Stock Agreement under the Christopher & Banks Corporation Second Amended and Restated 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 to Current Report on Form 8-K filed February 1, 2013)**
- 10.32 Amendment No. 1, dated May 2, 2013, to the Employment Agreement between Christopher & Banks Corporation and LuAnn Via entered into as of October 29, 2012 (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed May 3, 2013)**
- 10.33 Christopher & Banks Corporation 2013 Directors' Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed June 28, 2013)**
- 10.34 Form of Christopher & Banks Corporation Restricted Stock Agreement under the Christopher & Banks Corporation 2013 Directors' Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed June 28, 2013)**
- 10.35 Form of Performance Award Agreement under the Christopher & Banks Corporation Second Amended and Restated 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed March 14, 2014)**
- 10.36 Christopher and Banks Corporation 2014 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed June 27, 2014)**
- 10.37 Christopher and Banks Corporation 2014 Annual Incentive Plan (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed June 27, 2014)**
- 10.38 Amended and Restated Employment Agreement between Christopher and Banks Corporation and LuAnn Via effective as of June 26, 2014 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed June 27, 2014)**
- 10.39 First Amendment, dated September 8, 2014, to the Second Amended and Restated Credit Agreement, dated July 12, 2012, by and among Christopher & Banks Corporation, Christopher & Banks, Inc. and Christopher & Banks Company and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed September 8, 2014)
- 10.40 Christopher & Banks Corporation Non-Employee Director Deferred Stock Plan, Amended and Restated effective December 8, 2014 (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed December 10, 2014)**
- 10.41 Form of Performance Award Agreement under the Christopher & Banks Corporation 2014 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed on March 26, 2015)**

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- 10.42 Form of Time-Based Restricted Stock Agreement under the Christopher & Banks Corporation 2014 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on March 26, 2015)**
- 10.43 Form of Severance Agreement between Christopher & Banks Corporation and certain of its Executive Officers (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed April 10, 2015)**
- 10.44 Form of Restricted Stock Unit Agreement under the Christopher & Banks Corporation 2013 Directors' Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed June 29, 2015)**
- 10.45 Severance Agreement between Christopher & Banks Corporation and Marc Ungerman dated October 21, 2015 (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed November 13, 2015)**
- 10.46 Amendment No. 1 to the Amended and Restated Employment Agreement between Christopher & Banks Corporation and LuAnn Via as of February 24, 2015 (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed February 25, 2016)**
- 10.47 Support Agreement dated March 10, 2016, by and among Christopher & Banks Corporation; Macellum Retail Opportunity Fund, LP; Macellum Capital Management, LLC; Macellum Advisors GP, LLC; Macellum Management, LP; MCM Managers, LLC; MCM Management, LLC; and Jonathan Duskin (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K filed March 10, 2016)
- 14.1 Code of Conduct of Christopher & Banks Corporation (incorporated herein by reference to Exhibit 14.1 to Current Report on Form 8-K filed February 25, 2016)
- 21.1 Subsidiaries of Christopher & Banks Corporation (incorporated herein by reference to Exhibit 21.1 to Annual Report on Form 10-K for the fiscal year ended March 1, 2008 filed May 15, 2008)
- 23.1* Consent of KPMG LLP
- 24.1* Powers of Attorney
- 31.1* Certification of Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2* Certification of Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2* Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101* Financial statements from the Annual Report on Form 10-K of Christopher & Banks Corporation for the fiscal year ended January 30, 2016, formatted in Extensible Business Reporting Language ("XBRL"): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements

* Filed herewith

** Management agreement or compensatory plan or arrangement

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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 on March 18, 2016.

CHRISTOPHER & BANKS
CORPORATION

By: /s/ LuAnn Via
LuAnn Via
President, Chief Executive Officer

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.

Signature	Title	Date
/s/ LuAnn Via LuAnn Via	President, Chief Executive Officer and Director (Principal Executive Officer)	March 18, 2016
/s/ Peter G. Michielutti Peter G. Michielutti	Executive Vice President, Chief Operating Officer and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 18, 2016
* Lisa W. Wardell	Non-Executive Chair and Director	
* Mark A. Cohn	Director	
* Edwin J. Holman	Director	
* Anne L. Jones	Director	
* David A. Levin	Director	
* William F. Sharpe, III	Director	

* Director
Paul L. Snyder

* Director
Patricia A. Stensrud

*By: /s/ Peter G. Michielutti
Peter G. Michielutti
Attorney-in-Fact pursuant to Powers of Attorney filed herewith

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