FLOTEK INDUSTRIES INC/CN/
Form 10-Q
August 13, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2009

or

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

Commission File Number: 1-13270

FLOTEK INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**90-0023731**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2930 W. Sam Houston Pkwy N., Houston, Texas	**77043**
(Address of principal executive offices)	**(Zip Code)**

(713) 849-9911

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

There were 23,462,089 shares of the issuer s common stock, $.0001 par value, outstanding as of July 23, 2009.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

FLOTEK INDUSTRIES, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(in millions, except share data)

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2.7	$ 0.2
Accounts receivable, net of allowance for doubtful accounts of $0.8 million and $1.5 million, respectively	15.1	37.2
Inventories, net	31.9	38.0
Deferred tax asset, current	0.5	0.9
Other current assets	14.1	1.3
Total current assets	64.3	77.6
Property, plant and equipment, net	65.0	66.8
Goodwill	27.0	45.5
Intangible assets, net	36.3	38.0
Deferred tax assets, less current portion	9.5	6.6
TOTAL ASSETS	$ 202.1	$ 234.5
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 11.5	$ 22.7
Accrued liabilities	8.0	13.5
Accrued interest payable	2.8	2.4
Income taxes payable	0.2	0.9
Current portion of long-term debt	9.3	9.0
Total current liabilities	31.8	48.5
Long-term debt, less current portion	31.8	29.5
Convertible senior notes, net of discount of $21.9 million and $24.2 million at June 30, 2009 and December 31, 2008, respectively	93.1	90.8
Total liabilities	156.7	168.8
Commitments and contingencies		
Stockholders equity:		
Preferred stock, 100,000 shares authorized, none issued		
Common stock, $.0001 par value; 40,000,000 shares authorized; June 30, 2009 shares issued: 23,697,430; outstanding: 22,886,251; December 31, 2008 shares issued: 23,174,286; outstanding: 22,782,091		

Additional paid-in capital		78.3		76.8
Accumulated other comprehensive income		0.1		0.1
Accumulated deficit		(32.5)		(10.7)
Treasury stock: 235,341 shares and 158,697 shares at June 30, 2009 and December 31,2008, respectively		(0.5)		(0.5)
Total stockholders equity		45.4		65.7
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	202.1	$	234.5

See notes to consolidated condensed financial statements.

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FLOTEK INDUSTRIES, INC.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(in millions, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue	$ 23.5	$ 56.8	$ 64.2	$ 103.3
Cost of revenue	19.8	32.0	48.0	59.7
Expenses:				
Impairment of Goodwill	18.5		18.5	
Selling, general and administrative	9.0	11.6	19.4	21.9
Depreciation and amortization	1.3	1.7	2.5	2.6
Research and development	0.4	0.5	0.8	0.9
Total expenses	29.2	13.8	41.2	25.4
Income (loss) from operations	(25.5)	11.0	(25.0)	18.2
Other income (expense):				
Interest expense	(3.8)	(3.8)	(7.5)	(5.8)
Investment income and other	(0.1)		(0.2)	
Total other income (expense)	(3.9)	(3.8)	(7.7)	(5.8)
Income (loss) before income taxes	(29.4)	7.2	(32.7)	12.4
Benefit (provision) for income taxes	9.6	(2.7)	10.9	(4.7)
Net income (loss)	$ (19.8)	$ 4.5	$ (21.8)	$ 7.7
Other comprehensive income/(loss):				
Foreign currency translation adjustment				0.1
Comprehensive income/(loss)	$ (19.8)	$ 4.5	$ (21.8)	$ 7.8
Earnings/(loss) per common share:				
Basic	$ (1.01)	$ 0.23	$ (1.11)	$ 0.40
Diluted	$ (1.01)	$ 0.23	$ (1.11)	$ 0.39
Weighted average common shares used in computing basic earnings per common share (in thousands)	19,676	19,223	19,544	19,135
Incremental common shares from stock options, warrants and restricted stock (in thousands)		445		528
Weighted average common shares used in computing diluted earnings per common share (in thousands)	19,676	19,668	19,544	19,663

See notes to consolidated condensed financial statements.

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FLOTEK INDUSTRIES, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in millions)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Cash flows from operating activities:		
Net income (loss)	$ (21.8)	$ 7.7
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7.0	5.9
Amortization of deferred financing costs	0.7	0.3
Accretion of debt discount	2.3	1.3
Impairment of Goodwill	18.5	
Stock compensation expense	0.7	1.5
Changes in working capital and other	(3.7)	(6.1)
Net cash provided by operating activities	3.7	10.6
Cash flows from investing activities:		
Acquisitions, net of cash acquired		(96.1)
Proceeds from sale of assets	1.5	0.6
Capital expenditures	(4.9)	(9.2)
Net cash used in investing activities	(3.4)	(104.7)
Cash flows from financing activities:		
Proceeds from exercise of stock options		0.9
Purchase of treasury stock		(0.1)
Proceeds from borrowings	9.6	31.7
Proceeds from convertible debt offering		115.0
Debt issuance cost	(0.4)	(5.5)
Repayments of indebtedness	(7.0)	(45.2)
Net cash provided by financing activities	2.2	96.8
Effect of exchange rate changes on cash and cash equivalents		
Net increase in cash and cash equivalents	2.5	2.7
Cash and cash equivalents at beginning of period	0.2	1.3
Cash and cash equivalents at end of period	$ 2.7	$ 4.0
Supplemental disclosure of cash flow information:		
Interest paid	$ 4.2	$ 1.7
Income taxes paid	$ 3.2	$ 5.9

See notes to consolidated condensed financial statements.

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FLOTEK INDUSTRIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 General

These consolidated condensed financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair presentation of the results for the periods reported. All such adjustments are of a normal recurring nature unless disclosed otherwise. These consolidated condensed financial statements, including selected notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission (the SEC) and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Flotek Industries, Inc. (Flotek , the Company , us or we) 2008 Annual Report on Form 10-K.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated condensed financial statements and accompanying notes. Actual results could differ from those estimates.

Certain amounts for the quarter ended and the six months ended June 30, 2008 have been reclassified in the accompanying consolidated condensed financial statements to conform to the current quarter presentation. In prior periods we presented depreciation that related directly to the production of revenue as a component of Depreciation and amortization within our Consolidated Condensed Statements of Income (Loss) and Comprehensive Income (Loss) rather than including the portion as a component of Cost of sales. During the three and six months ended June 30, 2008 the amount of depreciation related to the production of revenue which we have reclassified to cost of sales was $1.8 million and $3.3 million, respectively. Additionally, see Note 9 for discussion on the retrospective adjustments to the December 31, 2008 Consolidated Condensed Balance Sheet and the Consolidated Condensed Statement of Income (Loss) and Comprehensive Income (Loss) for the three and six months ended June 30, 2008 related to the adoption of FSP Accounting Principles Board (APB) 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP 14-1).

Note 2 Recent Accounting Pronouncements

In July 2009, the FASB ratified EITF Issue No. 09-1, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing* (EITF 09-1). EITF 09-1 addresses the accounting for an entity s own-share lending arrangement initiated in conjunction with convertible debt or other financing offering and the effect a share-lending arrangement has on earnings per share. Additionally, EITF 09-1 addresses the accounting and earnings per share implications for defaults by the share borrower, both when a default becomes probable of occurring and when a default actually occurs. EITF 09-1 is effective for interim or annual periods beginning on or after June 15, 2009 for share-lending arrangements entered into in those periods. For all other arrangements within the scope, EITF 09-1 is applied retrospectively to share-lending arrangements that are outstanding as of the beginning of the fiscal year beginning on or after December 15, 2009. Early adoption is prohibited. We are currently evaluating the effect that EITF 09-1 will have on our consolidated condensed financial statements.

In June 2009, the FASB issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 168). SFAS No.168 establishes the Codification as the source of authoritative U.S. GAAP and supersedes all non-SEC accounting and reporting standards. This standard is effective for interim and annual periods ending after September 15, 2009. The adoption of the standard will not have a material effect on our consolidated condensed financial statements. The primary effect will be in the consolidated footnotes where references to U.S. GAAP and to new FASB pronouncements will be based on the sections of the code rather than to individual FASB standards.

In May 2009, the FASB issued FASB Statement No. 165, *Subsequent Events* (SFAS No. 165). This statement sets standards for the disclosure of events that occur after the balance-sheet date, but before financial statements are issued or are available to be issued. SFAS No. 165 sets forth the period after the balance-sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009. We adopted SFAS No. 165 effective June 30, 2009. The implementation of this standard did not have a material impact on our consolidated condensed financial position and results of operations.

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In April 2009, the FASB issued FSP FAS 107-1, APB 28-1, *Interim Disclosures About Fair Value of Financial Instruments* (FSP FAS 107-1, APB 28-1). FSP FAS 107-1, APB 28-1 requires fair value disclosures in both interim as well as annual financial statements in order to provide more timely information about the effects of current market conditions on financial instruments. FSP FAS 107-1, APB 28-1 is effective for interim and annual periods ending after June 15, 2009. We adopted FSP FAS 107-1, APB 28-1effective June 30, 2009. The implementation of this standard did not have a material impact on our consolidated condensed financial position and results of operations.

In June 2008, the FASB issued Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). This Staff Position states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. We adopted FSP EITF 03-6-1 effective January 1, 2009. All prior-period earnings per share (EPS) data presented have been adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of this Staff Position. The implementation of this standard did not have a material impact on our consolidated condensed financial position and results of operations.

In May 2008, the FASB issued FSP 14-1, which clarifies that convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate. The resulting debt discount would be amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. FSP 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. FSP 14-1 requires retrospective application to all periods presented in the financial statements with cumulative effect of the change reported in retained earnings as of the beginning of the first period presented. Our 5.25% Convertible Senior Notes due February 2028 (the Convertible Notes) are affected by this new standard. Upon adopting the provisions of FSP 14-1, we retroactively applied its provisions and restated our consolidated condensed financial statements for prior periods.

In applying FSP 14-1, $27.8 million of the carrying value of our Convertible Notes was reclassified to equity as of the February 2008 issuance date and offset by a related deferred tax liability of $10.6 million. This discount represents the equity component of the proceeds from the Convertible Notes, calculated assuming an 11.5% non-convertible borrowing rate. The discount will be accreted to interest expense over the expected term of five years, which is based on the call/put option on the debt at February 2013. Accordingly, $1.1 million and $1.0 million of additional non-cash interest expense was recorded in the Consolidated Condensed Statement of Income (Loss) and Comprehensive Income (Loss) for the three months ended June 30, 2009 and 2008, respectively, and $2.3 million and $1.3 million of additional non-cash interest expense was recorded in the Consolidated Condensed Statement of Income (Loss) and Comprehensive Income (Loss) for the six months ended June 30, 2009 and 2008, respectively. See Note 9 for more details on the retrospective application of FSP 14-1.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133* (SFAS No. 161). This statement requires enhanced disclosures about our derivative and hedging activities. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We adopted SFAS No. 161 effective January 1, 2009. The implementation of this standard did not have a material impact on our consolidated condensed financial position and results of operations.

Note 3 Acquisitions

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, *Business Combinations* (SFAS No. 141R), to replace Statement of Financial Accounting Standards No. 141, *Business Combinations* (SFAS No. 141). SFAS No. 141R requires use of the acquisition method of accounting, defines the acquirer, establishes the acquisition date and broadens the scope to all transactions and other events in which one entity obtains control over one or more other businesses. This statement is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 with earlier adoption prohibited. We have not acquired any companies since adopting SFAS No. 141R on January 1, 2009, and accordingly the companies we acquired prior to December 15, 2008 have been accounted for under SFAS 141. The Company had no deferred acquisition costs capitalized on its Balance Sheet as of December 31, 2008 related to unconsummated acquisitions.

Acquisitions have been accounted for using the purchase method of accounting under SFAS No. 141 Accounting for Business Combinations . The acquired companies results have been included in the accompanying financial statements from their respective dates of acquisition. Allocation of the purchase price for acquisitions was based on estimates of fair value of the net assets acquired and is subject to adjustment upon finalization of the purchase price allocation within the one year anniversary of the acquisition.

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On February 14, 2008, Teledrift Acquisition, Inc, a wholly-owned subsidiary of the Company, acquired substantially all of the assets of Teledrift, Inc. (Teledrift) for the aggregate cash purchase price of approximately $98.0 million, which includes a purchase price adjustment of $1.8 million recorded in the third quarter of 2008. Teledrift designs and manufactures wireless survey and measurement while drilling, or MWD, tools. The Company used the majority of the proceeds from issuance of the Convertible Notes to fund this acquisition.

The following unaudited pro forma consolidated table presents information related to the Teledrift acquisition for the six month period ended June 30, 2008 and assumes the acquisitions had been completed as of January 1, 2008 (in millions, except per share data):

	Six Months Ended June 30, 2008
Revenue	$ 105.2
Income before income taxes	14.5
Net income	9.0
Basic earnings per common share	$ 0.47
Diluted earnings per common share	0.46

Note 4 Product Revenue

The Company generates revenue through three main sales channels: Products, Rentals and Services. In most instances we generate revenue through these channels on an integrated basis. Sales channel information is set out in the table below:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(Unaudited) (in millions)			
Revenue				
Product	$ 14.6	$ 36.5	$ 41.5	$ 67.5
Rental	6.1	15.1	16.0	26.4
Service	2.8	5.2	6.7	9.4
	$ 23.5	$ 56.8	$ 64.2	$ 103.3
Cost of revenue				
Product	$ 12.4	$ 21.6	$ 29.8	$ 40.5
Rental	3.6	5.8	9.5	10.7
Service	1.5	2.8	4.2	5.2
Depreciation	2.3	1.8	4.5	3.3
	$ 19.8	$ 32.0	$ 48.0	$ 59.7

Within the Drilling Products segment amounts billed to customers for the cost of oilfield rental equipment that is damaged or lost-in-hole are reflected as rental revenue with the carrying value of the related equipment charged to cost of sales. The revenue for lost-in-hole totaled $0.8 million and $0.7 million for the three months ended June 30, 2009 and 2008, respectively, and $1.6 million and $1.0 million for the six months ended June 30, 2009 and 2008, respectively.

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Note 5 Inventories

The components of inventories as of June 30, 2009 and December 31, 2008 were as follows:

	June 30, 2009 (unaudited)	December 31, 2008
	(in millions)	
Raw materials	$ 9.8	$ 16.2
Work-in-process	1.2	1.9
Finished goods (includes in-transit)	25.3	22.3
Gross inventories	36.3	40.4
Less: Slow-moving and obsolescence reserve	(4.4)	(2.4)
Inventories, net	$ 31.9	$ 38.0

Note 6 Property, Plant and Equipment

As of June 30, 2009 and December 31, 2008, Property, plant and equipment comprised the following:

	June 30, 2009 (unaudited)	December 31, 2008
	(in millions)	
Land	$ 1.3	$ 1.3
Buildings and leasehold improvements	19.5	16.3
Machinery and equipment	10.7	8.8
Rental tools	50.0	47.1
Equipment in progress	0.8	5.5
Furniture and fixtures	1.3	1.2
Transportation equipment	4.6	4.9
Computer equipment	1.7	1.3
Total property, plant and equipment	89.9	86.4
Less: Accumulated depreciation	(24.9)	(19.6)
Property, plant and equipment, net	$ 65.0	$ 66.8

Depreciation expense for the three months ended June 30, 2009 and 2008 was $2.8 million and $2.4 million, respectively, and for six months ended June 30, 2009 and 2008 was $5.7 million and $4.0 million, respectively. Depreciation expense that directly relates to activities that generate revenue amounted to $2.3 million and $1.8 million for the three months ended June 30, 2009 and 2008, respectively, and $4.5 million and $3.3 million for the six months ended June 30, 2009 and 2008, respectively. These amounts are recorded within Cost of revenue in our Consolidated Condensed Statements of Income (Loss) and Comprehensive Income (Loss).

Note 7 Goodwill

We evaluate the carrying value of goodwill during the fourth quarter of each year and on an interim basis, if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (i) a significant adverse change in legal factors or in business climate, (ii) unanticipated competition, or (iii) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company compares the fair value of the reporting unit to

which the goodwill is assigned to the reporting unit s carrying amount, including goodwill. The fair value of the reporting unit is estimated using a combination of the income, or discounted cash flows approach and the market approach, which utilizes comparable companies data. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss is calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of reporting unit s goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value.

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Due to the continued macro-economic conditions affecting the oil and gas industry and the financial performance of all of our reporting units, Management decided to test for evidence of impairment in the second quarter of 2009. The assessment for impairment focused mainly on the Teledrift and Chemical and Logistics reporting units as these are the only reporting units with material amounts of goodwill and other intangible assets. Based upon this evaluation, we recorded an impairment charge of approximately $18.5 million for goodwill related to the Teledrift reporting unit in the second quarter of 2009. The impairment analysis for the Chemical and Logistics reporting unit did not result in any impairment.

The analysis conducted on the intangible assets of both the Teledrift and Chemical and Logistics reporting units did not result in any impairment as the calculated fair value of these assets exceeded their book value. Our recoverability assessment of these intangible assets considered company-specific projections, assumptions about market participant views and the company s overall market capitalization around the testing period. All of those factors worsened during the first half of 2009 compared to amounts used for the 2008 evaluations.

Our goodwill balance was $27.0 and $45.5 million at June 30, 2009 and December 31, 2008, respectively.

Note 8 Intangible Assets

The components of intangible assets at June 30, 2009 and December 31, 2008 are as follows:

	June 30, 2009 (unaudited)	December 31, 2008
	(in millions)	
Patents	$ 6.3	$ 6.3
Customer lists	28.6	28.6
Non-compete	1.7	1.7
Brand name	6.2	6.2
Supply contract	1.7	1.7
Other	0.4	0.5
Accumulated amortization	(12.8)	(11.5)
Total	32.1	33.5
Deferred financing costs	6.0	5.6
Accumulated amortization	(1.8)	(1.1)
Net deferred financing costs	4.2	4.5
Intangible assets, net	$ 36.3	$ 38.0

Intangible and other assets are being amortized on a straight-line basis ranging from two to 20 years. We recorded amortization expense related to our intangible assets in Depreciation and amortization in our Consolidated Condensed Statement of Income (Loss) and Comprehensive Income (Loss) of $0.8 million and $1.1 million for the three months ended June 30, 2009 and 2008, respectively, and $1.3 million and $1.9 million for the six months ended June 30, 2009 and 2008, respectively.

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Note 9 Long-Term Debt

Long-term debt at June 30, 2009 and December 31, 2008 consisted of the following:

	June 30, 2009 (unaudited)	December 31, 2008
	(in millions)	
Convertible Senior Notes	$ 115.0	$ 115.0
Discount on Convertible Senior Notes	(21.9)	(24.2)
Convertible Senior Notes, net of discount	$ 93.1	$ 90.8
Long-term debt:		
Senior Credit Facility		
Equipment term loans	$ 25.2	$ 34.0
Real estate term loans	0.8	0.8
Revolving line of credit	14.2	2.3
Promissory note to stockholders of acquired business, maturing December 2009	0.3	0.5
Other	0.6	0.9
Total	41.1	38.5
Less: Current portion	(9.3)	(9.0)
Long-term debt, less current portion	$ 31.8	$ 29.5

Convertible Senior Notes

On February 11, 2008, the Company entered into an underwriting agreement (the Convertible Notes Underwriting Agreement) with the subsidiary guarantors named therein (the Guarantors) and Bear, Stearns & Co. Inc. (the Underwriter). The Convertible Notes Underwriting Agreement related to the issuance and sale (the Convertible Notes Offering) of $100.0 million aggregate principal amount of the Company s Convertible Notes. The Convertible Notes are guaranteed on a senior, unsecured basis by the Guarantors. Pursuant to the Convertible Notes Underwriting Agreement, the Company granted the Underwriter a 13-day over-allotment option to purchase up to an additional $15.0 million aggregate principal amount of the Convertible Notes, which was exercised in full on February 12, 2008. The net proceeds received from the issuance of the Convertible Notes was $111.8 million.

The Convertible Notes Underwriting Agreement contained customary representations, warranties and agreements by the Company and the Guarantors, and customary conditions to closing, indemnification obligations of both the Company and the Guarantors, on the one hand, and the Underwriter, on the other hand, including liabilities under the Securities Act of 1933, obligations of the parties and termination provisions.

The Company used the net proceeds from the Convertible Notes Offering to finance the acquisition of Teledrift and for general corporate purposes.

FSP 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate. The resulting debt discount would be accreted over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. FSP 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Our Convertible Notes are affected by this new standard. The Company assumed an 11.5% non-convertible rate and an expected term of the debt of five years to determine the debt discount. The expected term of five years is based upon the time until a call/put option on the Convertible Notes at February 2013 can be exercised and the effective tax rate assumed at the inception of the Convertible Notes was 38.0%. FSP 14-1 requires retrospective application to all periods presented. The effect of the application on Stockholders Equity as of December 31, 2008 was $15.0 million, which consisted of the discount on the debt of $27.8 million and the related deferred tax liability of $10.6 million at inception net of the accretion of the discount of $ 3.6 million and related tax effect of $1.4 million through December 31, 2008. For

the three months ended June 30, 2009 and 2008 the accretion of the discount was $1.1 million and $1.0 million, respectively. For the six months ended June 30, 2009 and 2008 the accretion of the discount was $2.3 million and $1.3 million, respectively.

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As of June 30, 2009 and December 31, 2008, unamortized debt discount was $21.9 million and $24.2 million, respectively. The following tables reflect the previously described retrospective adjustments related to FSP 14-1 on amounts previously reported as of December 31, 2008 and the three and six months ended June 30, 2008:

	December 31, 2008	
	As reported	As adjusted
	(in millions)	
Deferred tax assets, less current portion	$ 15.8	$ 6.6
TOTAL ASSETS	243.7	234.5
Convertible senior notes, net of discount	115.0	90.8
Additional paid-in capital	59.6	76.8
Retained earnings (deficit)	(8.5)	(10.7)
Total stockholders equity	50.7	65.7
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	243.7	234.5

	Three Months Ended June 30, 2008		Six Months Ended June 30, 2008	
	As reported	As adjusted	As reported	As adjusted
	(in millions, except per share data)		(in millions, except per share data)	
Interest expense	$ (2.8)	$ (3.8)	$ (4.5)	$ (5.8)
Total other income (expense)	(2.8)	(3.8)	(4.5)	(5.8)
Income before taxes	8.2	7.2	13.7	12.4
Provision for income taxes	(3.1)	(2.7)	(5.2)	(4.7)
Net income	5.1	4.5	8.5	7.7
Basic earnings per common share	0.26	0.23	0.44	0.40
Diluted earnings per common share	0.26	0.23	0.43	0.39

Senior Credit Facility

On February 4, 2008, the Company entered into a Second Amendment (the Amendment) to the Amended and Restated Credit Agreement (as amended, modified or supplemented prior to the date thereof, the Senior Credit Facility), dated as of August 31, 2007, between the Company and Wells Fargo Bank, National Association. The Senior Credit Facility consisted of a revolving line of credit, an equipment term loan and two real estate term loans. The Amendment permitted the Company to consummate the acquisition of Teledrift, to issue up to $150 million of our Convertible Notes to fund the purchase price of Teledrift, and to incur additional capital expenditures, and includes new financial covenants and other amendments.

The Amendment increased the principal payment required to be made by the Company from $0.5 million monthly to $2.0 million quarterly effective June 30, 2008.

On March 31, 2008, the Company entered into a new Credit Agreement with Wells Fargo Bank, National Association (the New Credit Agreement). The New Credit Agreement provides for a revolving credit facility of a maximum of $25 million (the New Revolving Credit Facility) and a term loan facility of $40 million (the New Term Loan Facility) (collectively, the New Senior Credit Facility). The Company refinanced all but approximately $0.8 million of the outstanding indebtedness under its Senior Credit Facility with borrowings under the New Credit Facility. The amount under the Senior Credit Facility that was not refinanced relates to certain existing real estate loans.

The New Revolving Credit Facility will mature and be payable in full on March 31, 2011. The Company must make mandatory prepayments under the New Term Loan Facility annually beginning April 15, 2009, equal to 50% of the Company s excess cash flow for the previous calendar year and accordingly paid $4.8 million on that date. The Company is required to repay the aggregate outstanding principal amount of the New Term Loan Facility in quarterly installments of $2.0 million, commencing with the quarter ending June 30, 2008 and accordingly the Company has made $2.0 million quarterly payments in 2008 and 2009, including the payment on June 30, 2009. All remaining amounts owed pursuant to the New Term Loan Facility mature and will be payable in full on March 31, 2011.

Interest accrues on amounts under the New Senior Credit Facility at variable rates based on, at the Company s election, the prime rate or LIBOR, plus an applicable margin specified in the New Credit Agreement as amended by the Second Amendment to Credit Agreement dated as of March 13, 2009 (the Second Amendment). A minimum of 50% of Advances as defined in the New Credit Agreement must be swapped from a floating to a fixed interest rate. At June 30, 2009, the interest rate swap had a notional amount of $21.0 million, swap rate of 2.875% and a fair value of ($0.4 million). The Company records the fair value of the swap in Accrued liabilities and the unrealized loss in Other income (expense). The Company has no other derivative instruments.

The rate of interest related to borrowings outstanding under the New Credit Agreement was approximately 8.00% at June 30, 2009.

The maximum amount of credit available under the New Revolving Credit Facility is based on a percentage of the Company s eligible inventory and accounts receivable. The obligations of the Company under the New Credit Agreement are guaranteed by the Company s domestic subsidiaries and are secured by substantially all present and future assets of the Company and its subsidiaries.

The New Credit Agreement contains certain financial and other covenants, including a minimum net worth covenant, a maximum leverage ratio covenant, a minimum fixed charge coverage ratio covenant, a maximum senior leverage ratio covenant, a covenant restricting capital expenditures, a covenant limiting the incurrence of additional indebtedness, and a covenant restricting acquisitions. Certain of these covenants were amended in February and March 2009 when the Company entered into the First Amendment and Temporary Waiver Agreement and the Second Amendment to our New Credit Agreement with our lenders (collectively the Amendments). At June 30, 2009, we were not in compliance with all covenants under our New Credit Agreement and the Amendments. However, as described in Note 17 Subsequent Events, on August 11, 2009, we entered into a further amendment to our Credit Agreement modifying the financial covenants in the Credit Agreement and waiving any covenant violations as of June 30, 2009.

As of June 30, 2009, we had $14.2 million outstanding under the revolving line of credit of the New Senior Credit Facility. Total availability under our credit facility amounted to $0.1 million at June 30, 2009.

As of June 30, 2009, the Company had approximately $0.2 million outstanding in vehicle loans and capitalized vehicle leases.

Note 10 Fair Value Disclosure

The following table presents information about the Company s liability measured at fair value on a recurring basis as of June 30, 2009, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in millions):

	Level 1	Level 2	Level 3	Total
Convertible Senior Notes		$ 46.0		$ 46.0

The Company determined the estimated fair value amount of the Convertible Notes by using available market information and commonly accepted valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the fair value estimate presented herein is not necessarily indicative of the amount that the Company or the debt-holder could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

Note 11 Treasury Stock

For the three and six month periods ended June 30, 2009, 33,904 and 76,644 shares, respectively, previously issued as restricted stock awards (RSAs) to employees, were forfeited or cancelled during 2009 and accounted for as treasury stock.

The Company accounts for treasury stock using the cost method and includes treasury stock as a component of Stockholders equity. The Company currently neither has nor intends to initiate a share repurchase program.

Note 12 Earnings Per Share (EPS)

Basic EPS excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS is based on the weighted average number of shares outstanding during each period and the assumed exercise of dilutive instruments (stock options) less the number of common shares assumed to be purchased with the exercise proceeds using the average market price of the Common Stock for each of the periods presented. Due to the Net loss for the three and six month periods ended June 30, 2009, approximately 110,000 and 163,000 shares, respectively, of dilutive shares relating to stock options have been excluded from the calculation of Diluted EPS due to their anti-dilutive effect.

In connection with the Convertible Notes Offering, the Company entered into a Share Lending Agreement with Bear Stearns International Ltd. (BSIL). In view of the contractual undertakings of BSIL in the Share Lending Agreement, which have the effect of substantially eliminating the economic dilution that otherwise would result from the issuance of the borrowed shares, the Company believes that under accounting principles

generally accepted in the United States of America, the borrowed shares should not be considered outstanding for the purpose of computing and reporting the Company s earnings per share.

Note 13 Stock-Based Compensation

The Company follows Statement of Financial Accounting Standards No. 123R (FAS 123R). FAS 123R requires all stock-based payments, including grants of stock options, to be recognized in the income statement as an operating expense over the vesting period, based on their fair values. The Company follows the modified prospective method of adoption of FAS 123R whereby earnings for prior periods will not be restated as though stock-based compensation had been expensed.

In 2009, the Company awarded approximately 690,000 stock options to certain employees under the 2007 Long-Term Incentive Plan (the 2007 Plan). The fair value of these stock options, based on the Black-Scholes calculation, range from $0.80 to $1.66 per share. As of June 30, 2009, the Company has approximately 1,244,000 stock options outstanding of which approximately 499,000 are vested.

In 2009, the Company awarded approximately 423,000 RSAs to certain employees and non-employee directors under the 2007 Plan, all of which vest over a 4 year period. A summary of RSA activity for the six months ended June 30, 2009 follows:

	2009
Unvested as of January 1,	233,498
Granted	423,144
Vested	(4,160)
Forfeited	(76,644)
Unvested as of June 30,	575,838

Approximately $0.2 million and $0.7 million of stock-based compensation expense was recognized during the three-month periods ended June 30, 2009 and 2008, respectively, related to stock option grants and RSAs. Approximately $0.7 million and $1.5 million of stock-based compensation expense was recognized during the six-month periods ended June 30, 2009 and 2008, respectively, related to stock option grants and RSAs. As of June, 30, 2009 total stock-based compensation related to unvested awards (stock options and RSAs) was approximately $5.1 million, and the weighted-average period over which this cost will be recognized is approximately 3.0 years.

Note 14 Income Taxes

The effective income tax rate for the three months ended June 30, 2009 and 2008 was 32.7% and 37.9%, respectively. The effective income tax rate for the six months ended June 30, 2009 and 2008 was 33.3% and 37.9%, respectively.

Our effective income tax rate in 2009 and 2008 differs from the federal statutory rate primarily due to state income taxes and the domestic production activities deduction.

Our current corporate organization structure requires us to file two separate consolidated U.S. Federal income tax returns. As a result, taxable income of one group cannot be offset by tax attributes, including net operating losses, of the other group.

Note 15 Commitments and Contingencies

The Company is involved, on occasion, in routine litigation incidental to its business. The Company believes that the ultimate resolution of the routine litigation that may develop will not have a material adverse impact on the Company s financial position, results of operations or cash flows.

Note 16 Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance.

The Company has determined that there are three reportable segments:

The Chemicals and Logistics segment is made up of two business units. The specialty chemical business unit designs, develops, manufactures, packages and sells chemicals used by oilfield service companies in oil and gas well drilling, cementing, stimulation and production. The logistics business unit manages automated bulk material handling, loading facilities and blending capabilities for oilfield service companies.

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The Drilling Products segment rents, inspects, manufactures and markets downhole drilling equipment for the energy, mining, water well and industrial drilling sectors.

The Artificial Lift segment manufactures and markets artificial lift equipment which includes the Petrovalve line of beam pump components, electric submersible pumps, gas separators, valves and services to support coal bed methane production.

The Company evaluates performance based on several factors, of which the primary financial measure is business segment income before taxes. The accounting policies of the business segments are the same as those described in Note 2 Summary of Significant Accounting Policies in our December 31, 2008 Form 10-K. Inter-segment sales are accounted for at fair value as if sales were to third parties and are eliminated in the consolidated financial statements.

Summarized unaudited financial information concerning the segments for the three and six months ending June 30, 2009 and 2008 is shown in the following tables (in millions):

icals d tic	Drilling Products	Artificial Lift
5	$ 11.5	$

8. Because no valid QAQC samples were inserted in the 2000 drill programme, the drill core sample results from this phase will have to be audit duplicates, with SRMs inserted every 20 samples. This will give these assay results the same confidence level as the remainder of the assay databas Panantza reject core so that they can test for molybdenum (Mo) as well as copper. This re-analyses program will cost approximately $10,000.

9. To date, the SRMs used at Panantza are the same as those used at the Mirador Project, and were made from Mirador drill core. The two deposits a mineralization type that these standards are acceptable for use at Panantza for testing copper and gold grades. However, for best results and to also copper SRM should be made from Panantza core sample rejects. Making two new SRMs for Panantza will cost about $6000.

10. Mo occurs at concentrations averaging 100ppm in samples grading >0.4% copper. The preliminary metallurgy indicates Mo could be of int included in the next block model estimation.

11. Commence environmental baseline studies and permitting for development of Panantza and San Carlos. This will require the implementat community sustainable development program. The estimated cost for the combined Social and Environmental needs is $500,000.

12. Commence negotiations with the Ecuador government regarding hydroelectric power and project taxation.

13. A Feasibility Study can be initiated once the above recommendations are complete, contingent on there not being any fatal flaws discovered.

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Date and Signature Page

Effective Date of the report: June 7, 2007

The information upon which the contained resource estimates are based was current as of the Effective Date of June 7, 2007.

For the land title data in this report, the Effective Date is March 7, 2006.

Completion Date of report: July 10, 2007

I, John Drobe, P. Geo., do hereby certify that:

1. I am currently employed as Chief Geologist by: Corriente Resources Incorporated 520 800 West Pender Street Vanco
2V6 Phone: 604-687-0449 Fax: 604-687-0827 E-mail: jdrobe@corriente.com

2. I graduated with a Bachelor of Science degree in Geology from University of British Columbia in 1987 and a Master o
from Queen's University in Kingston, Ontario in 1991.

3. I have been a registered member in good standing of the Association of Professional Engineers and Geoscientists of Britis

4. I have practiced my profession continuously since 1991, since my graduation from graduate university.

5. I have read the definition of "qualified person" set out in National Instrument 43-101 ("NI 43-101") and certify that
affiliation with a professional association (as defined in NI 43-101) and past relevant work experience, I fulfill the req
person" for the purposes of NI 43-101.

6. I visited the Panantza deposit on several occasions between 2003 and 2007 and have reviewed all diamond drill core and
property.

7. I am not aware of any material fact or material change with respect to the subject matter of the Technical Report that is n
Report, the omission to disclose which makes the Technical Report misleading.

8. I have read National Instrument 43-101 and Form 43-101F1, and the Technical Report has been prepared in compliance w

10. I consent to the filing of the Technical Report with any securities regulatory authority, stock exchange and other r
publication by them, including electronic publication of the Technical Report in the public company files on their websites a

Dated at Vancouver, British Columbia, this _10th_ day of _July_, 2007.

"John Drobe"

____
John Drobe, M.Sc., P.Geo.

APPENDIX A

Letter Regarding the Status of Title to the Mining Concessions in Ecuador, for Explorcobres S.A. and Ecuacorriente S.A, Tr

Panantza Project, Ecuador, Update on Inferred Resource Estimation

Panantza Project, Ecuador, Update on Inferred Resource Estimation

Panantza Project, Ecuador, Update on Inferred Resource Estimation

Panantza Project, Ecuador, Update on Inferred Resource Estimation

APPENDIX B

Proposed Drill Program Map 2007

Panantza Project, Ecuador, Update on Inferred Resource Estimation

SIGNATURES

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

CORRIENTE RESOURCES INC.
(Registrant)

Date: July 13, 2007

By: /S/ DARRYL F. JONES
Name: Darryl F. Jones
Title: Chief Financial Officer