FLOTEK INDUSTRIES INC/CN/
Form 424B3
December 30, 2005

Filed Pursuant to Rule
424(b)(3)
Registration No. 333-129308

PROSPECTUS

2,618,468 Shares

FLOTEK INDUSTRIES, INC.

Common Stock

This prospectus relates to an aggregate of 2,618,468 shares of our common stock that may be sold by the selling shareholders named in this prospectus under the heading "Selling Shareholders". Of that number, 2,542,439 shares were acquired from us in two private placements and 76,029 shares will be issued by us to the selling shareholders upon the exercise of outstanding warrants held by them. This prospectus covers the resale by the selling shareholders of all of those shares.

The selling shareholders may offer and sell the shares of our common stock in their discretion from time to time at prevailing market prices, at negotiated prices or at fixed prices. We will not receive any of the proceeds from the sale of those shares, but we will receive gross proceeds of $842,660 if all of the warrants are exercised for cash by the selling shareholders.

We have agreed with the selling shareholders to bear all of the expenses incurred in connection with the registration of these shares, and the selling shareholders will pay any brokerage commissions or similar charges incurred for the sale of their shares of our common stock. The shares of common stock may be sold through broker-dealers or in privately negotiated transactions in which commissions and other fees may be charged.

Our common stock is traded on the American Stock Exchange under the symbol "FTK." On December 23, 2005, the last sale price for the common stock, as reported on the American Stock Exchange, was $18.90 per share.

See "Risk Factors" beginning on page 4 for factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission (the "SEC") 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 December 30, 2005

TABLE OF CONTENTS

SUMMARY INFORMATION

The following summary highlights key aspects of the information contained elsewhere in this prospectus. We urge you to read this entire prospectus, including the more detailed consolidated financial statements and notes to the consolidated financial statements prior to making an investment decision. Investing in our common stock involves risks. Therefore, please carefully consider the information provided under the heading "Risk Factors" beginning on page 4.

Our Business

Flotek is a Delaware corporation engaged in the manufacturing and marketing of innovative specialty chemicals and downhole drilling and production equipment, and in the management of automated bulk material handling, loading and blending facilities. Flotek serves major and independent companies in the domestic and international oilfield service industry. Company headquarters are located in Houston, Texas, and we have operations in Texas, Oklahoma, Louisiana, Utah and Wyoming. We market our products domestically and internationally in over 20 countries. As used in this prospectus, the terms "company", “Flotek”, "we", "our", "ours", and "us" may, depending upon the context, refer to Flotek Industries, Inc. together with its consolidated subsidiaries taken as a whole.

Our principal executive offices are located at 7030 Empire Central Drive, Houston, Texas, 77040, and our telephone number at that address is (713) 849-9911. Our website is located at www.flotekind.com. The information on our website is not part of this prospectus.

The Offering

Common Stock outstanding prior to this offering	8,288,618
Common Stock offered by selling shareholders, assuming full exercise of common stock purchase warrants	2,618,468
Common Stock to be outstanding after the offering	8,364,647
Use of Proceeds	We will not receive any proceeds from the sale of the common stock by the selling shareholders, although we could receive proceeds of up to $842,660 if all of the warrants are exercised.
AMEX Trading Symbol	FTK

Summary Financial Data

The summary consolidated financial data presented below is derived from and should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2004 and 2003, including the notes to those financial statements, and the unaudited interim condensed consolidated financial statements for the nine months ended September 30, 2005, including the notes to those financial statements, which are included elsewhere in this prospectus along with the section entitled "Management's Discussion and Analysis" beginning on page 15 of this prospectus.

Statement of Operations Information	**For the nine months ended September 30, 2005**	**For the year ended December 31, 2004**	**For the year ended December 31, 2003**
Revenues	$ 36,805,438	$ 21,881,289	$ 14,844,431
Gross Profit	$ 15,059,412	$ 9,351,658	$ 5,580,340
Net income (loss) for the period	$ 5,226,328	$ 2,153,689	$ (7,384,107)
Basic earnings (loss) per common share	$ 0.75	$ 0.32	$ (1.23)

Balance Sheet Information	**As at September 30, 2005**	**As at December 31, 2004**	**As at December 31, 2003**
Total Assets	$ 48,484,273	$ 15,957,087	$ 13,970,338
Total Liabilities	$ 15,722,023	$ 11,134,194	$ 11,410,234
Working Capital (Negative Working Capital)	$ 19,289,239	$ 318,979	$ (5,248,186)
Total Stockholders' Equity	$ 32,712,250	$ 4,822,983	$ 2,560,104
Common Stock Outstanding	8,241,035	6,670,004	6,521,670

RISK FACTORS

Our business is subject to a number of risks, some of which are discussed below. Before deciding to invest in our company or to maintain or increase your investment, you should carefully consider the risk factors described below. The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business and results of operations. If any of these risks actually occurs, our business, financial condition or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Business

We have had a history of losses. We incurred net losses in four of our last five years, including losses of approximately $7.4 million in 2003, $5.5 million in 2002, $1.4 million in 2001 and $159,000 in 2000. We had income of approximately $2.2 million in 2004. Our ability to operate profitably depends on increasing our sales, expanding our markets and achieving sufficient gross profit margins. We cannot assure you that we will achieve or maintain profitable operations in the future.

We have experienced fluctuations in our revenues, which may continue in the future. Fluctuations in revenues are principally the result of the highly cyclical nature of the oil and natural gas exploration and drilling business and, to a lesser extent, geographic expansion of our sales and marketing. A decrease in oil and gas prices generally causes a decline in exploration and drilling activity resulting in decreased demand for our products that serve the drilling industry. Therefore, a decline in oil and natural gas prices will negatively impact our revenues and income. As a result of the cyclicality of our industry, our results of operations have been volatile, and we expect this volatility to continue.

Our historical results are not an indicator of our future operations. We have made numerous acquisitions during the past year. As a result of these transactions, our past performance is not indicative of future performance, and investors in the common stock should not base their expectations as to our future performance on our historical results.

We may have difficulty integrating acquired businesses. The integration of new businesses will be complex and time consuming, will be a drain on management's resources, and may disrupt our businesses. We may be adversely impacted by unknown liabilities of acquired businesses. We may encounter substantial difficulties, costs and delays involved in integrating common accounting information and communication systems, operating procedures, internal controls and human resources practices, including incompatibility of business cultures and the loss of key employees and customers. These difficulties may increase operating expenses and hinder our ability to achieve the synergies we expect from the combination of businesses, including reduced overhead through shared facilities, cross-marketing to customers and accessing a larger pool of customers through the provision of a larger range of services.

Our international operations are subject to special risks that can materially affect our sales and profits. Our international operations have increased business and credit risks inherent in doing business in countries with legal and political policies different from those in the United States. Those risks can include unsettled political conditions, war, civil unrest, boycotts, inflation and fluctuations in foreign currency exchange rates. Governmental reaction to the general legislative and regulatory environment, exchange controls, changes in global trade policies such as trade restrictions and embargos by the United States and other countries, and changes in international business, political and economic condition can negatively impact our international operations. In addition, future trends for pricing, margins, revenue and profitability remain difficult to predict in the industries we serve and under current economic and political conditions. Most of these risks are beyond our control.

The loss of key personnel would adversely affect our operations and future potential acquisitions. We are dependent upon the efforts and skills of our executives to manage our business, identify and consummate potential future acquisitions and obtain and retain our customers. In addition, our recent development and expansion will require additional experienced management and operations personnel. No assurance can be given that we will be able to identify and retain these employees. The loss of one or more of the services of our key personnel could increase our exposure to the other risks described in this section. We do not maintain key man insurance on any of our personnel.

Risks Associated With Our Industry

We are subject to government regulations which can increase operating costs and affect our operations. We are subject to various federal, state and local laws and regulations relating to the energy industry in general and the environment in particular. Environmental laws have become more stringent in recent years and have generally sought to impose greater liability on a larger number of potentially responsible parties. Although we are not aware of any proposed material changes in any federal, state and local statutes, rules or regulations, any changes could materially affect our financial condition and results of operations.

Severe weather could have a material adverse impact on our business. Our business could be materially and adversely affected by severe weather. Hurricanes, tropical storms and other weather hazards may cause the curtailment of services, damages to our equipment and facilities, interruptions in the transportation of our products and materials in accordance with contract schedules and loss of productivity. Our business could be materially and adversely affected indirectly if our customers are unable to operate as a result of weather hazards, and curtail the purchase of our products and services.

Risks of economic downturn could reduce demand for our products. In the event of an economic downturn in the United States and/or globally there may be decreased demand and lower prices for oil and natural gas and therefore for our products and services. Our customers are generally involved in the energy industry, and if these customers experience a business decline, we could be subject to increased exposure to credit risk. If an economic downturn occurs, our results of operations may be adversely affected.

We are at risk for certain operating hazards. Our operations are subject to hazards present in the oil and natural gas industry which can cause personal injury and damage to property or the environment. Litigation arising from an accident at a location where our products or services are used or provided may cause us to be named as a defendant in lawsuits asserting potentially large claims. We have insurance coverage against operating hazards, which we believe is customary in the industry. This insurance has deductibles and contains certain coverage exclusions. Our insurance premiums can be increased or decreased based on the claims we make on our insurance policies. Results of operations could be adversely affected by unexpected claims not covered by insurance.

We are subject to substantial competition and the risk of technical obsolescence. The oilfield service industry is highly competitive, and we must compete with many companies possessing greater financial resources and better established market positions. These competitors may be better positioned to withstand industry downturns, compete on the basis of price and acquire new equipment and technologies, all of which could affect our revenues and profitability. The introduction of new products and technologies by competitors may adversely affect the demand for our products and services.

The failure to adequately protect our proprietary rights could adversely affect our ability to compete. We rely on a combination of patents, trademarks, non-disclosure agreements and other security measures in order to establish and protect our proprietary rights. Although we believe that those measures, together with our trade secrets and proprietary design, manufacturing and operational expertise, are reasonably adequate to protect our intellectual property and provide for the continued operation of our business, we are unable to provide assurance that the measures we have taken or may take in the future will prevent misappropriation of our proprietary information or that others will not independently develop similar products, design around our proprietary or patented technology or duplicate our products.

Risks Related to the Common Stock

Substantial sales of our common stock by the selling shareholders could cause our stock price to decline. The 2,618,468 shares covered by this prospectus represent approximately 33.4% of our weighted average outstanding shares of common stock, on a fully diluted basis. We are unable to predict the amount or timing of sales by the selling shareholders of our common stock, but sales of substantial amounts in the public market could lower the market price of our stock.

An active market may not develop for our common stock. Our common stock is quoted on the American Stock Exchange. While there is currently one specialist in our common stock, this specialist is not obligated to continue to make a market in our common stock. In the event it does not continue to make a market in our common stock, the liquidity of our common stock could be adversely impacted and a stockholder could have difficulty obtaining accurate stock quotes. Trading volume for our common stock has historically been low. Despite the increase in the number of shares of common stock to be publicly held as a result of the private placement to the selling shareholders and the exercise of warrants, we cannot assure you that an active trading market for our common stock will develop or be sustained.

The price of our common stock has been volatile. The market price of our common stock could be subject to significant fluctuations after this offering. During the past twelve months, the trading price of our common stock has ranged from $3.25 to $22.50 per share. You may not be able to resell your shares at or above the price paid to acquire our common stock. The stock markets in general have experienced extreme volatility that has at times been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. Among the factors that could affect our stock price but may be unrelated to our operating and financial performance are speculation in the press or investment community, sales of our common stock by the selling shareholders, fluctuations in oil and gas prices, general market conditions and domestic and international economic, legal and regulatory factors unrelated to our performance.

Future issuance of additional shares of our common stock could cause dilution of ownership interests and adversely affect our stock price. The company may in the future issue its previously authorized and unissued securities, resulting in the dilution of the ownership interests of its current stockholders and purchasers of common stock offered hereby. We are currently authorized to issue 20,000,000 shares of common stock with such rights as determined by our board of directors. The potential issuance of such additional shares of common stock may create downward pressure on the trading price of our common stock. We may also issue additional shares of our common stock or other securities that are convertible into or exercisable for capital raising or other business purposes. Future sales of substantial amounts of common stock, or the perception that sales could occur, could have a material adverse effect on the price of our common stock.

We may issue shares of preferred stock with greater rights than our common stock. Subject to the rules of the American Stock Exchange, our articles of incorporation authorize our board of directors to issue one or more series of preferred stock and set the terms of the preferred stock without seeking any further approval from holders of our common stock. Currently, there are 100,000 preferred shares authorized but none issued. Any preferred stock that is issued may rank ahead of our common stock in terms of dividends, priority and liquidation premiums and may have greater voting rights than holders of our common stock.

We have not paid dividends on our common stock and do not expect to do so in the foreseeable future. We have no present intention to pay cash dividends on our common stock in the foreseeable future, and some of our credit agreements contain provisions that limit the payment of dividends. Therefore an investor in our common stock should not expect to obtain any economic benefit from owning our common stock prior to a sale of those shares, if then.

Our governing documents limit director liability thereby making it difficult to bring any action against them for breach of fiduciary duty. As permitted by Delaware law, the company's Certificate of Incorporation and Bylaws limit the liability of directors to the company or its stockholders for monetary damages for breach of a director's fiduciary duty except for liability in certain instances. As a result of those provisions and Delaware law, stockholders' rights to recover against directors for breach of fiduciary duty will be limited.

PRIVATE SECURITIES LITIGATION REFORM ACT SAFE HARBOR STATEMENT

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), based on our current expectations, assumptions, estimates and projections about our business and our industry. The words "anticipate", "believe", "expect", "plan", "intend", "project", "forecast", "could" and similar expressions are intended to identify forward-l statements. All statements other than statements of historical facts regarding the company's financial position, business strategy, budgets and plans and objectives of management for future operations are forward-looking statements. Although the company believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those in the forward-looking statements for various reasons, including the effects of competition, the level of petroleum industry exploration and production expenditures, world economic and political conditions, prices of and the demand for crude oil and natural gas, weather, the legislative environment in the United States and other countries, adverse changes in the capital and equity markets, and other risk factors identified herein.

New risk factors emerge from time to time, and it is not possible for us to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements. You should not rely upon forward-looking statements as predictions of future events or performance. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur.

USE OF PROCEEDS

The shares of common stock offered by this prospectus will be sold by the selling shareholders, who will receive all of the proceeds from the sales of such shares. The company will not receive any proceeds from the sale or distribution of the common stock by the selling shareholders, but we will incur all costs associated with this registration statement and prospectus. We will receive gross proceeds of $842,660 if all of the warrants are exercised for cash by the selling shareholders. We intend to use cash proceeds from exercises of warrants for working capital and other general corporate purposes.

SELLING SHAREHOLDERS

The following table sets forth certain information regarding the selling shareholders' ownership of our common stock as of September 30, 2005, and as adjusted to reflect the assumed sale by the selling shareholders of all of the common stock owned, or to be owned upon the exercise of outstanding warrants, by them in this offering. The term "selling shareholder" includes the shareholders listed below and their transferees, assignees, pledges, donees or other successors.

Each of the selling shareholders has represented to us that it is not a broker-dealer. One of the selling shareholders, Oberweis Micro-Cap Fund, has represented to us that it is an affiliate of a broker-dealer, that it purchased the shares in the ordinary course of business and that at the time of purchase of the shares it had no agreements or understandings, directly or indirectly, with any person to distribute the shares.

We are unable to determine the exact number of shares that will actually be sold, because the selling shareholders may sell all or some of the shares and reserve the right to accept or reject, in whole or in part, any proposed sale of shares. The selling shareholders may offer and sell less than the number of shares indicated, and are not making any representations that any shares covered by this prospectus will or will not be offered for sale. We are not aware of any agreements, arrangements or understandings with respect to the sale of any of the shares. The following table assumes that the selling shareholders will sell all of the shares being offered for their account by this prospectus.

Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Act and generally includes voting or investment power with respect to securities. Except as indicated in the footnotes to the table, we believe that each shareholder possesses sole voting and investment power with respect to all of the shares of common stock owned by that holder, subject to community property laws where applicable. In computing the number of shares beneficially owned by a holder and the percentage ownership of that holder, shares of common stock underlying warrants that are currently exercisable within 60 days are deemed outstanding. Percentages are based on 8,288,618 shares of common stock issued and outstanding as of November 28, 2005 and, solely in the case of selling shareholders who hold warrants to purchase common stock, the number of shares of common stock issuable upon the exercise of the warrant held by that selling shareholder.

			Shares Beneficially Owned after the Offering	
Selling Shareholders	**Shares Beneficially Owned before the Offering**	**Shares Offered in this Offering**	**No. of Shares**	**% of Outstanding**
Bonanza Master Fund Ltd. (1)	195,000	195,000	—	—
Calm Waters Partnership (2)	310,000	150,000	160,000	1.9%
Cordillera Fund, LP (3)	20,000	20,000	—	—
Deephaven Distressed Opportunities Trading Ltd. (4)	88,000	88,000	—	—
Deephaven Event Trading Ltd. (5)	103,600	103,600	—	—
Green Bay Packing Master Trust Fund (6)	4,000	4,000	—	—
Harbour Holdings Ltd. (7)	27,500	27,500	—	—
HedgEnergy Master Fund (8)	150,000	150,000	—	—
Ironman Energy Capital, LP (9)	200,000	200,000	—	—
Los Angeles City Employees' Retirement System (10)	48,500	48,500	—	—
MA Deep Event Ltd. (11)	8,400	8,400	—	—
Nite Capital LP (12)	10,000	10,000	—	—
UMB Trust & Co. FBO Oberweis	33,700	25,000	8,700	*

Micro-Cap Fund (13)				
Ritchie Energy Trading, Ltd. (14)	200,000	200,000	—	—
SIT Small Cap Growth Fund, Series D (15)	47,500	47,500	—	—
Skylands Quest LLC (16)	17,700	4,500	13,200	*
Skylands Special Investment LLC (17)	50,100	17,500	32,600	*
Skylands Special Investment II LLC (18)	1,225	500	725	*
Wells Fargo National Association (19)	20,000	20,000	—	—
John Chisholm (20) (21)	176,453	152,725	23,728	*
Arvind Sanger (21)	30,024	7,657	22,367	*
Tom Bandy (21)	18,832	18,832	—	—
Glenn Penny (22)	777,915	6,991	770,924	9.3%
William Ziegler (23)	298,463	290,418	8,045	*
Saxton River Corporation (24)	69,498	69,498	—	—
TOSI, LLP (25)	752,347	752,347	—	—
TOTAL	**3,658,757**	**2,618,468**	**1,040,289**	**12.6%**

---

* Represents less than 1%.

(1) Bernay Box, President of the General Partner of Bonanza Master Fund Ltd., exercises voting and investment power over the shares held by Bonanza Master Fund Ltd.

(2) Richard S. Strong, Managing Partner of Calm Waters Partnership, exercises voting and investment power over the shares held by Calm Waters Partnership.

(3) John Relton, Chief Financial Officer of Andrew Carter Capital, exercises voting and investment power over the shares held by Cordillera Fund, LP.

(4) Jeff Golbus, Assistant Portfolio Manager of Deephaven Distressed Opportunities Trading Ltd., exercises voting and investment power over the shares held by Deephaven Distressed Opportunities Trading Ltd.

(5) Jeff Golbus, Assistant Portfolio Manager of Deephaven Event Trading Ltd., exercises voting and investment power over the shares held by Deephaven Event Trading Ltd.

(6) Eugene Sit, Chairman, CEO & CIO of SIT Investment Associates, Inc., exercises voting and investment power over the shares held by Green Bay Packing Master Trust Fund.

(7) Charles A. Paquelet, President of Skylands Capital, LLC., exercises voting and investment power over the shares held by Harbour Holdings Ltd.

(8) B.J. Willingham, Chief Investment Officer of HedgEnergy Master Fund, exercises voting and investment power over the shares held by HedgEnergy Master Fund.

(9) G. Bryan Dutt, Managing Director of Ironman Energy Capital, LP, exercises voting and investment power over the shares held by Ironman Energy Capital, LP.

(10) Eugene Sit, Chairman, CEO & CIO of SIT Investment Associates, Inc., exercises voting and investment power over the shares held by Los Angeles City Employees' Retirement System.

(11) Jeff Golbus, Assistant Portfolio Manager of MA Deep Event Ltd., exercises voting and investment power over the shares held by MA Deep Event Ltd.

(12) Keith Goodman, Manager of the General Partner of Nite Capital LP, exercises voting and investment power over the shares held by Nite Capital LP.

(13) James W. Oberweis, President of the Oberweis Micro-Cap Funds, exercises voting and investment power over the shares held by UMB Trust & Co. FBO Oberweis Micro-Cap Fund.

(14) Jeff Wallace, Senior Managing Director of Ritchie Capital and Investment Advisor to Ritchie Energy Trading, Ltd., exercises voting and investment power over the shares held by Ritchie Energy Trading, Ltd

(15) Eugene Sit, Chairman, CEO & CIO of SIT Investment Associates, Inc., exercises voting and investment power over the shares held by SIT Small Cap Growth Fund, Series D.

(16) Charles A. Paquelet, President of Skylands Capital, LLC, exercises voting and investment power over the shares held by Skylands Quest LLC.

(17) Charles A. Paquelet, President of Skylands Capital, LLC, exercises voting and investment power over the shares held by Skylands Special Investment LLC.

(18) Charles A. Paquelet, President of Skylands Capital, LLC, exercises voting and investment power over the shares held by Skylands Special Investment II LLC.

(19) Common stock issuable upon the exercise of warrants at $5.35 per share issued in connection with a credit agreement between the Company and Wells Fargo Bank dated February 14, 2005.

(20) Member of our Board of Directors since 1999. 123,185 shares and 29,540 warrants held by Chisholm Energy Partners.

(21) Includes 23,728 shares of common stock held by Mr. Chisholm issuable upon the exercise of warrants at $13.13 per share issued pursuant to a Securities Purchase and Exchange Agreement between the Company and the holder listed, dated April 30, 2000 as amended August 15, 2001.

(22) Member of our Board of Directors and Chief Technical Officer since 2001. Currently an employee of the Company.

(23) Member of our Board of Directors since 1997.

(24) Saxton River Corporation is controlled by Jerry D. Dumas, Sr., Chairman and CEO of Flotek Industries, Inc.

(25) J.W. Beavers, President of Pitman Property Corp, general partner of TOSI, L.P., exercises voting and investment power over the shares held by TOSI, L.P.

PLAN OF DISTRIBUTION

As of the date of this prospectus, we have not been advised by the selling shareholders as to any plan of distribution. Distributions of the shares by the selling shareholders, or by their partners, pledgees, donees (including charitable organizations), transferees or other successors in interest, may from time to time be offered for sale either directly by such individual, or through underwriters, dealers or agents or on any exchange on which the shares may from time to time be traded, in the over-the-counter market, or in independently negotiated transactions or otherwise. In the event of the transfer by any of the selling stockholders of its shares to any pledgee, donee, transferee or other successor, we will file a prospectus supplement to this prospectus and the registration statement of which it is a part, identifying such successors as selling shareholders. The methods by which the shares may be sold include:

- a block trade (which may involve crosses) in which the broker or dealer so engaged will attempt to sell the securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker or dealer as principal and resale by such broker or dealer for its own account pursuant to this prospectus;
- exchange distributions and/or secondary distributions;
- sales in the over-the-counter market;
- underwritten transactions;
- ordinary brokerage transactions and transactions in which the broker solicits purchasers; and
- privately negotiated transactions.

Such transactions may be effected by the selling shareholders at market prices prevailing at the time of sale or at negotiated prices. The selling shareholders may effect such transactions by selling the common stock to underwriters or to or through broker-dealers, and such underwriters or broker-dealers may receive compensations in the form of discounts or commissions from the selling shareholders and may receive commissions from the purchasers of the common stock for whom they may act as agent. The selling shareholders may agree to indemnify any underwriter, broker-dealer or agent that participates in transactions involving sales of the shares against certain liabilities, including liabilities arising under the Securities Act. We have agreed to register the shares for sale under the Securities Act and to indemnify the selling shareholders and each person who participates as an underwriter in the offering of the shares against certain civil liabilities, including certain liabilities under the Securities Act.

In connection with sales of the common stock under this prospectus, the selling shareholders may enter into hedging transactions with broker-dealers, who may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling shareholders also may sell shares of common stock short and deliver them to close out the short positions, or loan or pledge the shares of common stock to broker-dealers that in turn may sell them.

The selling shareholders and any broker-dealers or agents that participate with the selling shareholders in the sale of the shares may be deemed to be “underwriters” within the meaning of the Securities Act in connection with these sales. In that event, any commissions received by the broker-dealers or agents and any profit on the resale of the shares of common stock purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

CIRCUMSTANCES UNDER WHICH SELLING SHAREHOLDERS ACQUIRED SECURITIES

Set forth below is a summary of the circumstances that led to the issuance to the selling shareholders of shares of our common stock and the warrants which are exercisable for shares of our common stock.

On August 29, 2005, we completed a private offering of 1,300,000 shares of common stock at a price of $16.30 per share to 18 accredited investors. Gross proceeds from the private offering were $21,190,000; estimated costs associated with the offering were $1,381,400. Proceeds from the sale were used for general corporate purposes, strategic acquisitions, and repayment of existing indebtedness. In connection with the sale, we covenanted with the private placement investors to file a registration statement with the SEC within 60 days of the completion of the private offering, covering resale of the shares by those investors. This prospectus covers the sale of those 1,300,000 shares.

On February 14, 2005, in connection with a credit agreement with Well Fargo Bank National Association, we issued common stock purchase warrants to Wells Fargo to purchase 20,000 shares of common stock at $5.35 per share at any time before February 14, 2007. We also covenanted with Wells Fargo to file a registration statement covering the resale of the shares to be issued upon the exercise of the warrant. This prospectus covers the sale of 20,000 shares issuable upon the exercise of that warrant.

On April 30, 2000, pursuant to a Securities Purchase and Exchange Agreement with certain purchasers, we issued to such purchasers (i) 2,365.77 shares of our Series A Convertible Preferred Stock of the Company and (ii) warrants to purchase an aggregate of 78,859,012 shares of common stock at an exercise price of $0.03 per share expiring April 2010. The consideration provided by these purchasers to the Company in exchange for the issuance of these securities was the cancellation of certain promissory notes issued by the Company to evidence loans previously made by the purchasers to the Company and certain warrants granted by the Company in connection with these loans. On August 15, 2001, pursuant to an Agreement and Plan of Reorganization with Chemical & Equipment Specialties, Inc. ("CESI"), the conversion price for the Series A Convertible Preferred Stock and associated warrants was adjusted to $0.027 per share. The conversion price of those warrants whose holders did not participate in the reorganization was adjusted to $0.12 per share, and their expiration date was extended five years from the date of the agreement. In connection with the Securities Purchase and Exchange Agreement, we entered into a Registration Rights Agreement with those purchasers in which we agreed to include in any registration statement filed by us with the SEC prior to April 30, 2006 any shares of common stock into which the warrants were subsequently exercised or the Series A Convertible Preferred Stock of the Company subsequently converted, and any other shares of our common stock owned by them at the time of the execution of the Registration Rights Agreement. Of the total number of shares we have the obligation to register under that Registration Rights Agreement, 1,242,439 shares of common stock now held by such purchasers as a result of the exercise of warrants or the conversion of the Series A Convertible Preferred Stock, and 56,029 shares of common stock issuable upon the exercise of warrants which remain issued and outstanding, are covered by this prospectus.

BUSINESS

Historical Development

Flotek was originally incorporated under the laws of the Province of British Columbia on May 17, 1985. On October 23, 2001, we approved a change in our corporate domicile to Delaware and a reverse stock split of 120 to 1. On October 31, 2001, we completed a reverse merger with CESI. Since that date, we have entered into the following acquisitions that were outside the ordinary course of our business:

- acquired IBS 2000, Inc. ("IBS 2000"), a Denver-based company engaged in the development and manufacture of environmentally neutral chemicals for the oil industry, on February 19, 2002,
- acquired manufacturing assets, inventory and intellectual property rights to produce oilfield shale shaker screens from Phoenix E&P Technology, LLC ("Phoenix") on January 28, 2005,
- acquired Spidle Sales and Services, Inc. ("Spidle"), a downhole tool company with rental, sales and manufacturing operations throughout the Rocky Mountains, on February 14, 2005,
- acquired the assets of Harmon's Machine Works, Inc. ("Harmon"), a downhole oilfield and mining tool company with manufacturing and sales operations located in Midland, Texas, on August 19, 2005, and
- acquired the assets of Precision-LOR, Ltd. ("LOR"), a drilling tool rental and inspection service provider in south Texas, on August 31, 2005.

Description of Business

We are a supplier of drilling and production products and services to the energy industry on a worldwide basis. Our core focus is oilfield specialty chemicals and logistics, downhole drilling tools and downhole production tools. We are headquartered in Houston, Texas. As of July 27, 2005 our common stock began trading on the American Stock Exchange under the stock ticker symbol "FTK". Prior to this date our common stock was traded on the OTC Bulletin Board market under the stock ticker symbol, "FLTK" or "FLTK.OB". Our website is located at http://www.flotekind.com. Information contained in our website or links contained on our website are not part of this prospectus.

Our reportable segments are strategic business units that offer different products and services. Each business segment requires different technology and marketing strategies, and is managed independently.

- The Chemicals and Logistics segment is made up of two business units. The CESI Chemical business unit develops, manufactures, and markets chemicals used by oilfield service companies in oil and gas well drilling, cementing, stimulation and production. The Materials Translogistics business unit manages automated bulk material handling, loading facilities, and blending capabilities for oilfield service companies.

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

- The Production Products segment manufactures and markets the Petrovalve line of downhole pump components.

Chemicals and Logistics

The CESI Chemical business offers a full spectrum of oilfield specialty chemicals used for drilling, cementing, stimulation, and production. We have laboratory facilities in Oklahoma and Colorado which design, develop and test new chemical formulations and enhance existing products, often in cooperation with our customers. The laboratory provides quality assurance to our manufacturing operations and expert technical support to our customers on existing product lines. The development of specialty chemicals with enhanced performance characteristics to withstand a wide range of downhole pressures, temperatures and other well-specific conditions is key to the success of this business unit.

The customer base for the CESI Chemicals business is primarily oil and gas pumping service companies, including both major and independent oilfield service companies. The segment manufactures, packages and warehouses its products in Oklahoma. We distinguish ourselves through the strength of our innovative and proprietary products, dedication to product quality and superior customer service. The division's products provide measurable productivity increases and solutions to environmental problems.

Our Material Translogistics business designs, project manages and operates automated bulk material handling and loading facilities for oilfield service companies, and serves as consulting engineers. The domestic customer base for this segment consists of one major independent oilfield service company which specializes in pressure pumping, cementing and stimulation services. We also contract with international customers to design and project manage the construction of bulk handling facilities. Our client's bulk facilities handle oilfield products including sand and other materials for well fracturing operations, as well as dry cement and additives for oil and gas well cementing, and supplies and materials used in oilfield operations which we blend to specification.

Drilling Products

The Drilling Products segment manufactures and sells centralizers, rents and sells a variety of downhole drilling tools, and provides drilling tool inspection services.

Our Turbeco line of fixed rigid and integral joint centralizers is used in oil and gas well cementing programs to increase the effectiveness of such operations. The tool's main purpose is assuring the pipe is properly centered in the well bore thereby obtaining an effective bond with the formation. We manufacture and market the Turbo-Flo high efficiency oilfield shale shaker screens purchased from Phoenix through our existing sales network.

We rent and sell a variety of downhole drilling tools used in the oilfield, mining, water well and industrial drilling sectors domestically and in Central and South America. Products include drill bits, reamers, stabilizers, tubulars and drilling mud motors. In addition we provide drill pipe inspection services domestically.

Our customers in the Drilling Products segment are primarily oil and gas exploration and production companies, including major oil companies, which own producing oil and gas wells and are involved in the drilling and cementing of oil wells. Our active customer base is distributed among major oil companies and smaller independent operators. Marketing for our products is primarily focused in the Gulf of Mexico, Mid-Continent and Rocky Mountain regions of the United States.

Production Products

The Production Products segment manufactures and markets the patented Petrovalve line of downhole pump components. The Petrovalve line of downhole pump valves was originally designed in the mid-1980's and has undergone significant improvements in recent years. The Petrovalve product line provides longer and more reliable downhole pump performance than the traditional ball and seat valves which are the predominant product in the industry. Additionally, the Petrovalve has demonstrated more efficient flow characteristics and increased production volumes in many circumstances. Our "Gas Breaker" technology allows us to provide a solution to gas lock problems often encountered on wells with lower flow rates or high gas ratios. We outsource manufacturing of most of the machined valve components, but assemble and perform final quality assurance on all valves in Houston.

The Petrovalve product line is comprised of rod pump manufacturers and pump maintenance and service shops using the industry standard API ball and seat product, as well as other proprietary valve products. Our customers in the Downhole Production Products segment are primarily major oil and gas exploration and production companies. The majority of the sales in this segment are international sales.

Product Demand and Marketing

The demand for our products and services is generally correlated to the level of oil and gas drilling activity, both in the United States and internationally. Drilling activity, in turn, is generally dependent on the price levels of oil and gas. Certain products, particularly the Petrovalve line and some of our specialty chemicals, are more closely related to the production of oil and gas, and demand is less dependent on drilling activity.

We market our products primarily through direct sales to our customers by company managers and sales employees. We have established customer relationships which provide for repeat sales. The majority of our marketing is currently conducted within the United States. However, we have been expanding our international sales efforts and we expect international sales to continue to increase. Internationally, we operate primarily through agents in Canada, Mexico, Central and South America, the Middle East, Asia and Russia.

Customers

The customers for our products and services include the major integrated oil and natural gas companies, independent oil and natural gas companies and state-owned national oil companies. Although we are not dependent on one or a few major customers, five customers accounted for 47% of consolidated revenues for the year ended December 31, 2004 and 26% of consolidated revenues for the nine months ended September 30, 2005. The majority of these sales was in the Chemicals and Logistics segment and collectively accounted for 57% of revenues in this segment for the year ended December 31, 2004 and 45% of revenues in this segment for the nine months ended September 30, 2005.

Research and Development

We are actively involved in developing proprietary products to expand our existing product lines and in developing new technologies. We incurred $300,074 and $46,654 in research and development expenses for the years ended December 31, 2004 and 2003, respectively. We have incurred $440,863 for the nine months ended September 30, 2005.

Intellectual Property

We have followed a policy of seeking patent protection both within and outside the United States for products and methods that appear to have commercial significance and qualify for patent protection. The decision to seek patent protection considers whether such protection can be obtained on a cost-effective basis and is likely to be effective in protecting our commercial interests. We believe our patents and trademarks, together with our trade secrets and proprietary design, manufacturing and operational expertise, are reasonably adequate to protect our intellectual property and provide for the continued operation of our business. We maintain patents on our production valve design and casing centralizer design, and trade secrets on certain specialty chemicals.

Competition

Our ability to compete in the oilfield services market is dependent on our ability to differentiate our products and services, provide superior quality and service, and maintain a competitive cost structure. Activity levels in our three segments are driven primarily by current and expected commodity prices, drilling rig count, oil and gas production levels, and customer capital spending allocated for drilling and production. The regions in which we operate are highly competitive. The competitive environment has intensified as recent mergers among oil and gas companies have reduced the number of available customers. Many other oil and gas service companies are larger than we are and have greater resources than we have. These competitors are better able to withstand industry downturns, compete on the basis of price and acquire new equipment and technologies, all of which could affect our revenues and profitability. These competitors compete with us both for customers and for acquisitions of other businesses. This competition may cause our business to suffer. We believe that competition for contracts will continue to be intense in the foreseeable future.

Raw Materials

The Chemical and Logistic segment's operations purchase their principal raw material, chemical feed stocks, on the open market. Collection and transportation of these raw materials to the Company's plants can be adversely affected by extreme weather conditions. Prices for the chemical feed stocks also vary in relation to the general business cycle and global demand. The Drilling and Production segments purchase their principal raw material, steel, on the open market. Except for a few chemical additives, the raw materials are available in most cases from several suppliers at market prices. We use multiple suppliers, both domestically and internationally, for our key raw materials.

Government Regulations

We are subject to federal, state and local environmental and occupational safety and health laws and regulations in the United States and other countries in which we do business. We strive to comply fully with these requirements and are not aware of any material instances of noncompliance. Many of the products within our specialty chemicals segment are considered hazardous or flammable. If a leak or spill occurs in connection with our operations, we could incur material costs, net of insurance, to remediate any resulting contamination.

Employees

As of November 28, 2005, we employed 170 full-time employees. None of our employees are covered by collective bargaining agreements.

MANAGEMENT

The following table provides certain information with respect to the Board of Directors and the Executive Officers of the Company.

Name	Age	Positions	Position Held Since
Jerry D. Dumas, Sr.	70	Chief Executive Officer, Chairman and Director	1998
Glenn S. Penny	55	President, Chief Technical Officer and Director	2001
Lisa Bromiley Meier	32	Chief Financial Officer and Vice President	2004
Gary M. Pittman	42	Director	1997
William R. Ziegler	63	Director	1997
John W. Chisholm	51	Director	1999
Barry E. Stewart	50	Director	2001
Richard O. Wilson	75	Director	2003

The following is a brief description of the background and principal occupation of each director and executive officer:

Jerry D. Dumas, Sr. - Mr. Dumas became Chairman of the Board of Directors of the Company in 1998. He has served as Chief Executive Officer of the Company since September 1998. Prior to that he was Vice President of Corporate and Executive Services with Merrill Lynch Private Client Group for ten years. Mr. Dumas served as Group Division President with Hughes Tool Company, a predecessor to Baker Hughes, Inc., from 1980 to 1984. Mr. Dumas holds a B.S. degree from Louisiana State University.

Glenn S. Penny - Dr. Penny became President, Chief Technical Officer and a Director of the Company with the merger of Flotek Industries, Inc. and CESI in 2001. Dr. Penny founded CESI in April 2000 and served as its President and Chief Executive Officer. Prior to founding CESI, Dr. Penny served as President of Stim-Lab, Inc., a company specializing in independent testing of completion fluids and methods, from its founding in 1985 to April 2000. Stim-Lab, Inc. was acquired by Core Laboratories N.V., an NYSE-listed oilfield service company, in 1997. Dr. Penny holds a B.S. degree in Chemistry from Trinity University and a Ph.D. degree in Chemistry from the University of Houston.

Lisa Bromiley Meier - Mrs. Meier was appointed Chief Financial Officer of the Company in April 2004 and Vice President in January 2005. Prior to joining Flotek, Mrs. Meier worked in the energy audit practice of PricewaterhouseCoopers, LLP and worked for three Fortune 500 companies. Mrs. Meier served in various accounting, finance, SEC reporting and risk management positions. Mrs. Meier is a Certified Public Accountant and a Chartered Financial Analyst candidate. Mrs. Meier holds B.B.A. and Masters of Accountancy degrees from the University of Texas.

Gary M. Pittman - Mr. Pittman founded his own company in 1995 to provide investment and merchant banking services to private and public companies. From 1987 to 1995, Mr. Pittman was Vice President of The Energy Recovery Fund, a $180 million private equity fund focused on the energy industry. Mr. Pittman has served as Director and Audit Committee member of Czar Resources, Ltd., a public Canadian exploration and production company; Triton Imaging International, a developer of sea floor imaging software; Secretary, VP and Director of Sub Sea International, an offshore robotics and diving company; BioSafe Technologies, a developer of non-toxic insecticides; and owned and operated an oil and gas production and gas gathering company in Montana. Mr. Pittman holds a B.A. degree in Economics/Business from Wheaton College and an M.B.A. degree in Finance and Marketing from Georgetown University. Mr. Pittman serves as Chairman of the Compensation Committee and is a member of the Audit Committee.

William R. Ziegler - Mr. Ziegler has been of counsel to the law firm of Satterlee Stephens Burke & Burke LLP since January 2001. Prior to that time he was a partner in that law firm and predecessor firms for over five years. Mr. Ziegler is a director and Vice Chairman of Grey Wolf, Inc., a provider of contract land drilling services to the oil and gas industry. He is Chairman of the Board (non-executive) of Vesta Corp., Firebird Holdings Limited, and Geokinetics, Inc. He serves as Vice Chairman of the Board (non-executive) of Union Drilling, Inc. Mr. Ziegler is a graduate of Amherst College and received a law degree from the University of Virginia and an M.B.A. degree from Columbia University. He has practiced corporate, banking and securities law since 1968. Mr. Zeigler is a member of the Compensation Committee.

John W. Chisholm - Mr. Chisholm is a founder of Wellogix, Inc., which develops software for the oil and gas industry to streamline workflow, improve collaboration, expedite the inter-company exchange of enterprise data and communicate complex engineered services. Mr. Chisholm co-founded ProTechnics Company and served as President of that company from 1985 through 1998, after it was acquired by Core Laboratories N.V. in 1996. After leaving Core Laboratories in 1998 as Senior Vice President of Global Sales and Marketing he started Chisholm Energy Partners, an investment fund specializing in mid-size energy service companies. Mr. Chisholm holds a B.A. degree from Ft. Lewis College. Mr. Chisholm is a member of the Compensation Committee.

Barry E. Stewart - Mr. Stewart became Chief Financial Officer of Rotech Healthcare Inc. in July 2004. Mr. Stewart served as Chief Financial Officer of Evolved Digital Systems, Inc. from 2001 to 2004, and Vice President of Finance for Community Health Systems, Inc. from 1996 to 2001. Prior to 1996, Mr. Stewart served in various managing director positions with national commercial banks. He is a Certified Public Accountant licensed in Texas and Tennessee and has a M.B.A. degree from the University of Houston. Mr. Stewart serves as Chairman of the Audit Committee.

Richard O. Wilson - Mr. Wilson is an Offshore Construction consultant with 48 years experience in the North Sea, Gulf of Mexico, Gulf of Paria, Lake Maracaibo, South Atlantic Offshore Brazil and Angola. Mr. Wilson is a Director of Callon Petroleum Inc. Mr. Wilson received a B.S. degree in Civil Engineering from Rice University. Mr. Wilson serves on the Audit Committee.

There are no family relationships between any director or executive officer.

We have a code of ethics that applies to our principal executive officer, principal financial officer and chief accounting officer/controller.

Board Committees

The standing committees of the Board include the Compensation Committee consisting of Gary Pittman, John Chisholm, and William Ziegler, and the Audit Committee, comprised of Barry Stewart, Gary Pittman and Richard Wilson. Mr. Stewart is considered a “financial expert” based on his current and past employment, his education and his professional certification.

The Compensation Committee sets compensation policy for all of our Executive Officers, makes recommendations to the full Board of Directors regarding executive compensation and employee stock option awards, and administers our 2003 and 2005 Long-Term Incentive Plans.

The primary function of the Audit Committee is to provide advice with respect to our financial matters and to assist the Board of Directors in fulfilling its oversight responsibilities regarding audit, finance, accounting and tax compliance. In particular, the Audit Committee is responsible for overseeing the engagement, independence and services of our independent auditors. The Audit Committee also serves to: (i) act as an independent and objective party to monitor our financial reporting process and internal control system; (ii) review and appraise the audit efforts of the independent auditors; (iii) evaluate our quarterly financial performance as well as the compliance with laws and regulations; (iv) oversee management’s establishment and enforcement of financial policies and business practices; and (v) provide an open avenue of communication among the independent auditors, financial and senior management, counsel, and the Board of Directors. The Board has adopted a written charter for the Audit Committee.

Our Board of Directors does not have a standing executive or nominating committee or committees performing similar functions.

MANAGEMENT’S DISCUSSION AND ANALYSIS

Critical Accounting Policies and Estimates

Our financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and require us to make estimates and assumptions during their preparation which require judgment. Our critical accounting policies and procedures include but are not limited to the following:

Cash and Cash Equivalents

We consider all short-term investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash

As of December 31, 2004, we had $37,038 of restricted cash which serves as collateral for a standby letter of credit that provides financial assurance that we will fulfill our obligations related to an international contract to design and project manage the construction of a bulk handling facility in Mexico.

Inventories

Inventories consist of raw materials, finished goods, and parts and materials used in manufacturing and construction operations. Finished goods inventories include raw materials, direct labor and production overhead. Inventories are carried at the lower of cost or market using the weighted average cost method. The Company maintains a reserve for slow-moving and obsolete inventories, which is reviewed for adequacy on a periodic basis.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. The cost of ordinary maintenance and repairs is charged to operations, while replacements and major improvements are capitalized. Depreciation or amortization is provided at rates considered sufficient to amortize the cost of the assets using the straight-line method over the following estimated useful lives:

Buildings and leasehold improvements	3-24 years
Machinery and equipment	2-3 years
Furniture and fixtures	3-7 years
Transportation equipment	3 years
Computer equipment	3-5 years

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds either the fair value or the estimated discounted cash flows of the assets, whichever is more readily measurable. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Goodwill and Intangible Assets

Goodwill represents the excess of the aggregate price paid by us in acquisitions over the fair market value of the tangible and identifiable intangible net assets acquired. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, “Goodwill and Other Intangible Assets” separable intangible assets that are not deemed to have indefinite lives will be amortized over their useful lives.

Financial Instruments

We consider the fair value of all financial instruments (primarily long-term debt) not to be materially different from their carrying values at the end of each fiscal year based on management's estimate of our ability to borrow funds under terms and conditions similar to those of our existing debt and because the majority of our debt carries a floating rate.

We have no off-balance sheet debt or other off-balance sheet financing arrangements. We have not entered into derivative or other financial instruments.

Revenue Recognition

Revenue for product sales is recognized when all of the following criteria have been met: (i) evidence of an agreement exists, (ii) products are shipped or services rendered to the customer and all significant risks and rewards of ownership have passed to the customer, (iii) the price to the customer is fixed and determinable and (iv) collectibility is reasonably assured. Accounts receivable are recorded at that time net of any discounts. Earnings are charged with a provision for doubtful accounts based on a current review of collectibility of the accounts receivable. Accounts receivable deemed ultimately uncollectible are applied against the allowance for doubtful accounts. Deposits and other funds received in advance of delivery are deferred until the transfer of ownership is complete. Our Material Translogistics business unit ("MTI") recognizes revenues of its design and construction oversight contracts under the percentage-of-completion method of accounting, measured by the percentage of costs incurred to date to the total estimated costs of completion. This percentage is applied to the total estimated revenue at completion to calculate revenues earned to date. Contract costs include all direct labor and material costs and those indirect costs related to manufacturing and construction operations. General and administrative costs are charged to expense as incurred. Changes in job performance and estimated profitability, including those arising from contract bonus or penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which such revisions appear probable. All known or anticipated losses on contracts are recognized in full when such amounts become apparent. MTI bulk material transload revenue is recognized as services are performed for the customer.

Foreign Currency

We have sales that are denominated in currencies other than the United States dollar. Any foreign currency transaction gains or losses are included in our results of operations. We have not entered into any forward foreign exchange contracts to hedge the potential impact of currency fluctuations on our foreign currency denominated sales.

Research and Development Costs

Expenditures for research activities relating to product development and improvement are charged to expense as incurred.

Income Taxes

Income taxes are computed under the liability method. We provide deferred income tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amounts and the respective tax basis of assets and liabilities. These deferred assets and liabilities are based on enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred income tax assets to amounts which are more likely than not to be realized.

Earnings Per Share

Earnings per common share is calculated by dividing net income or loss attributable to common stockholders by the weighted average number of common shares outstanding. Dilutive income or loss per share is calculated by dividing net income or loss attributable to common stockholders by the weighted average number of common shares outstanding and dilutive effect of stock options.

Stock-Based Compensation

We recognize compensation expense associated with stock-based awards under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, “Accounting for Stock Issued to Employees”, and related interpretations. The difference between the quoted market price as of the date of the grant and the contractual purchase price of shares is charged to operations over the vesting period. No compensation expense has been recognized for stock options with fixed exercise prices equal to the market price of the stock on the dates of grant. We provide supplemental disclosure of the effect on net income (loss) and earnings (loss) per share as if the provisions of SFAS No. 123, “Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure” had been applied in measuring compensation expense. Under SFAS 123R, we will be required to measure the cost of employee services received in exchange for stock based on the grant date at fair value (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (usually the vesting period). The fair value will be estimated using an option-pricing model. Excess tax benefits, as defined in SFAS 123R, will be recognized as an addition to additional paid-in capital. The Standard is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. We are currently in the process of evaluating the impact of SFAS 123R on our financial statements.

Recent Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46 (“FIN 46”), “Consolidation of Variable Interest Entities”. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. In December 2003, the FASB issued FIN 46R which revised certain provisions in the original interpretation and permitted multiple effective dates based upon the nature and formation date of the variable interest entity. Adoption of the provisions of FIN 46R did not have any impact on our financial position, results of operations or cash flows as all of our subsidiaries are wholly-owned.

In December 2004, the FASB published the following two final FASB Staff Positions, effective immediately. FAS 109-1, "Application of FASB Statement No.109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004," giving guidance on applying FASB Statement No. 109, Accounting for Income Taxes, to the tax deduction on qualified production activities provided by the American Jobs Creation Act of 2004. FAS 109-2 "Accounting and Disclosure Guidance for that Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" provides guidance on the Act's repatriation provision. We are in the process of reviewing the FAS 109-1 and FAS 109-2; however, at this time, we do not believe that the adoption of FAS 109-1 or FAS 109-2 will have a material impact on our consolidated financial position, results of operations or cash flows.

In November 2004, the FASB Emerging Issues Task Force, or EITF, reached a consensus in applying the conditions in Paragraph 42 of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations" (EITF 03-13). Evaluation of whether operations and cash flows have been eliminated depends on whether (1) continuing operations and cash flows are expected to be generated, and (2) the cash flows, based on their nature and significance, are considered direct or indirect. This consensus should be applied to a component that is either disposed of or classified as held-for-sale in fiscal periods beginning after December 15, 2004. We do not believe that the adoption of EITF 03-13 will have a material impact on our consolidated financial position, results of operations or cash flows.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs—An Amendment of ARB No. 43, Chapter 4" (SFAS No. 151). SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and re-handling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted by us in the first quarter of fiscal 2006, beginning on January 1, 2006. We are currently evaluating the effect that the adoption of SFAS No. 151 will have on our consolidated financial position, results of operations and cash flows, but do not expect SFAS No. 151 to have a material impact.

Results of Operations for the Nine Months Ending September 30, 2005 and 2004

	Nine Months Ended September 30, 2005	2004
Revenues	$ 36,805,438	$ 15,278,420
Cost of revenues	21,746,026	8,662,846
Gross profit	15,059,412	6,615,574
Gross profit %	40.9%	43.3%
Expenses:		
Selling, general and administrative	6,461,727	3,915,949
Depreciation and amortization	999,805	537,960

Research and development	440,863	211,401
Total expenses	7,902,395	4,665,310
Income from operations	7,157,017	1,950,264
Income from operations %	19.4%	12.8%

A3/BBB

13,552,500

Gazprom AG,

8,700

9.625%, 3/1/13

A3/BBB

9,439,500

1,800

9.625%, 3/1/13 (a)(d)

A3/BBB

1,956,600

2,000

Newfield Exploration Co., 7.125%, 5/15/18

Ba3/BB-

1,895,000

1,200

Northwest Pipeline Corp., 5.95%, 4/15/17

Baa2/BBB-

1,177,062

2,400

Plains All American Pipeline L.P., 6.65%, 1/15/37

Baa3/BBB-

2,175,665

1,000

Range Resources Corp., 7.25%, 5/1/18	Ba3/BB	975,000	1,176
Ras Laffan Liquefied Natural Gas Co., Ltd., 3.437%, 9/15/09 (b)	Aa2/A	1,177,548	2,500
Ras Laffan Liquefied Natural Gas Co., Ltd. II, 5.298%, 9/30/20 (b)	Aa2/A	2,375,750	2,500
Reliant Energy, Inc., 6.75%, 12/15/14	Ba3/BB+		

		2,531,250
		1,750
SandRidge Energy, Inc., 8.00%, 6/1/18 (a)(d)	B3/B-	1,649,375
		10,000
Williams Cos., Inc., 7.875%, 9/1/21	Baa3/BB+	10,521,550
		400
XTO Energy, Inc., 5.50%, 6/15/18	Baa2/BBB	371,747

86,865,469

Paper/Paper Products 1.9%

Georgia-Pacific Corp.,

4,300

7.00%, 1/15/15 (a)(d)

Ba3/BB-

4,031,250

6,500

7.25%, 6/1/28

B2/B+

5,443,750

2,500

7.375%, 12/1/25

B2/B+

2,137,500

2,850

7.75%, 11/15/29

B2/B+

2,486,625

12,000

8.00%, 1/15/24

B2/B+

11,040,000

2,000

Smurfit Capital Funding PLC, 7.50%, 11/20/25

Ba2/BB+

1,750,000

26,889,125

Pharmaceuticals 0.1%

			1,900
Hospira, Inc., 6.05%, 3/30/17			
	Baa3/BBB		
			1,858,365

PIMCO Corporate Opportunity Fund Schedule of Investments

August 31, 2008 (unaudited)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value*
Telecommunications 10.7%			
$19,500	AT&T Corp., 8.00%, 11/15/31	A2/A	$22,351,465
3,000	Bellsouth Capital Funding, 7.875%, 2/15/30	A2/A	3,239,001
	Citizens Communications Co.,		
1,000	7.875%, 1/15/27	Ba2/BB	865,000
5,250	9.00%, 8/15/31	Ba2/BB	4,580,625
2,400	9.25%, 5/15/11	Ba2/BB	2,496,000
	Deutsche Telekom International Finance BV, 8.75%,		
9,500	6/15/30	Baa1/BBB+	10,497,376
	Embarq Corp.,		
10,000	7.082%, 6/1/16	Baa3/BBB-	9,291,640
10,000	7.995%, 6/1/36	Baa3/BBB-	8,847,300
11,000	France Telecom S.A., 8.50%, 3/1/31	A3/A-	13,221,175
6,000	Nextel Communications, Inc., 7.375%, 8/1/15	Baa3/BB	4,877,994
21,650	PanAmSat Corp., 6.875%, 1/15/28	B1/BB-	16,778,750
	Qwest Capital Funding, Inc.,		
8,000	7.25%, 2/15/11	B1/B+	7,730,000
6,000	7.90%, 8/15/10	B1/B+	6,022,500
2,000	Qwest Communications International, Inc., 7.50%, 2/15/14	Ba3/B+	1,830,000
	Qwest Corp.,		
4,400	6.026%, 6/15/13, FRN	Ba1/BBB-	4,092,000
6,150	8.875%, 3/15/12	Ba1/BBB-	6,226,875
	Sprint Capital Corp.,		
18,100	6.90%, 5/1/19	Baa3/BB	16,818,448
2,900	8.375%, 3/15/12	Baa3/BB	2,923,948
4,680	8.75%, 3/15/32	Baa3/BB	4,562,401
1,350	Sprint Nextel Corp., 9.25%, 4/15/22	Baa3/BB	1,284,906
3,500	Verizon New York, Inc., 7.375%, 4/1/32	Baa3/A	3,454,308
			151,991,712
Tobacco 0.3%			
4,000	RJ Reynolds Tobacco Holdings, Inc., 7.75%, 6/1/18	Baa3/BBB	4,169,944
Transportation 0.1%			
800	Norfolk Southern Corp., 5.75%, 4/1/18 (a)(d)	Baa1/BBB+	795,126
Utilities 6.1%			
1,000	CMS Energy Corp., 3.741%, 1/15/13, FRN	Ba1/BB+	912,500
5,073	East Coast Power LLC, 7.066%, 3/31/12	Baa3/BBB-	5,227,847
5,740	Homer City Funding LLC, 8.137%, 10/1/19	Ba2/BB	6,141,800
10,650	Ipalco Enterprises, Inc., 7.25%, 4/1/16 (a)(d)	Ba1/BB	10,729,875
3,500	Jersey Central Power & Light Co., 6.15%, 6/1/37	Baa2/BBB	3,136,129
14,480	Midwest Generation LLC, 8.56%, 1/2/16	Baa3/BB+	14,950,198
2,000	Nevada Power Co., 6.75%, 7/1/37	Baa3/BBB	1,980,286
40,500	PSE&G Energy Holdings LLC, 8.50%, 6/15/11	Ba3/BB-	42,494,422
2,000	Sierra Pacific Power Co., 6.75%, 7/1/37	Baa3/BBB	1,980,286
			87,553,343
	Total Corporate Bonds & Notes (cost $1,213,380,020)		1,139,137,222
U.S. GOVERNMENT AGENCY SECURITIES 3.5%			
	Fannie Mae,		

605	5.301%, 11/1/35, FRN, MBS	Aaa/AAA	621,148
10,000	5.50%, MBS, TBA (e)	Aaa/AAA	9,876,560

PIMCO Corporate Opportunity Fund Schedule of Investments

August 31, 2008 (unaudited)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value*
$365	7.00%, 7/25/26, CMO	Aaa/AAA	$384,973
569	7.00%, 2/18/27, CMO	Aaa/AAA	586,450
25	7.00%, 2/1/30, MBS	Aaa/AAA	25,955
135	7.00%, 3/1/31, MBS	Aaa/AAA	141,365
18	7.00%, 10/1/31, MBS	Aaa/AAA	18,616
81	7.00%, 11/1/31, MBS	Aaa/AAA	84,527
138	7.00%, 1/1/32, MBS	Aaa/AAA	145,215
1,172	7.00%, 6/1/32, MBS	Aaa/AAA	1,227,094
142	7.00%, 9/1/32, MBS	Aaa/AAA	148,577
42	7.00%, 11/1/32, MBS	Aaa/AAA	44,462
305	7.00%, 1/1/33, MBS	Aaa/AAA	321,882
184	7.00%, 2/1/33, MBS	Aaa/AAA	194,253
265	7.00%, 4/1/33, MBS	Aaa/AAA	277,826
326	7.00%, 6/1/33, MBS	Aaa/AAA	341,280
457	7.00%, 9/1/33, MBS	Aaa/AAA	478,347
186	7.00%, 1/1/34, MBS	Aaa/AAA	196,006
156	7.00%, 2/1/34, MBS	Aaa/AAA	163,670
4,938	7.00%, 6/1/35, MBS	Aaa/AAA	5,170,646
1,238	7.00%, 7/1/35, MBS	Aaa/AAA	1,295,957
3,677	7.00%, 2/1/36, MBS	Aaa/AAA	3,853,001
110	7.00%, 9/25/41, CMO, VRN	Aaa/AAA	115,661
1,860	7.00%, 12/25/41, CMO	Aaa/AAA	1,955,906
52	7.50%, 12/25/19, CMO	Aaa/AAA	56,260
476	7.50%, 5/1/22, MBS	Aaa/AAA	512,321
22	7.50%, 6/25/30, CMO	Aaa/AAA	23,051
568	7.50%, 12/1/33, MBS	Aaa/AAA	609,385
103	7.50%, 11/25/40, CMO	Aaa/AAA	108,394
174	7.50%, 5/25/42, CMO	Aaa/AAA	185,292
50	7.50%, 7/25/42, CMO	Aaa/AAA	52,860
9,128	7.50%, 12/25/45, CMO	Aaa/AAA	9,655,886
10	8.00%, 9/25/23, CMO	Aaa/AAA	10,332
36	8.00%, 7/18/27, CMO	Aaa/AAA	38,481
9,141	8.00%, 12/25/45, CMO	Aaa/AAA	9,653,182
238	9.99%, 9/25/17, CMO	Aaa/AAA	265,866
	Freddie Mac,		
93	7.00%, 5/15/23, CMO	Aaa/AAA	96,628
1,383	7.00%, 1/15/24, CMO	Aaa/AAA	1,455,287
115	7.50%, 11/1/19, MBS	Aaa/AAA	121,597
42	8.00%, 9/15/26, CMO	Aaa/AAA	46,004
10	9.50%, 5/15/21, CMO	Aaa/AAA	10,372
	Small Business Administration Participation Certificates,		
100	7.50%, 4/1/17	Aaa/AAA	103,058
	Total U.S. Government Agency Securities		
	(cost $49,940,583)		50,673,633
MUNICIPAL BONDS 3.0%			
New Jersey 3.0%			
	Tobacco Settlement Financing Corp. Rev. (j),		
12,590	5.75%, 6/1/32	Aaa/AAA	13,685,330
9,440	6.125%, 6/1/24	Aaa/AAA	10,002,907

16,520	6.375%, 6/1/32	Aaa/AAA	18,820,906
	Total Municipal Bonds (cost $37,346,456)		42,509,143

PIMCO Corporate Opportunity Fund Schedule of Investments

August 31, 2008 (unaudited)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value*
SENIOR LOANS (a)(c) **1.1%**			
Energy 0.1%			
	AES Corp., Term B (b),		
$714	5.063%, 8/10/11		$700,893
714	5.10%, 8/10/11		700,893
			1,401,786
Entertainment 0.2%			
3,940	MGM Studios, 6.051%, 4/8/12, Term B		3,006,713
Healthcare & Hospitals 0.7%			
9,850	HCA, Inc., 5.051%, 11/18/13, Term B		9,246,687
Hotels/Gaming 0.1%			
2,183	Las Vegas Sands Corp., 4.56%, 5/23/14		1,867,085
	Total Senior Loans (cost $17,402,126)		15,522,271
MORTGAGE-BACKED SECURITIES 0.8%			
1,000	Citigroup/Deutsche Bank Commercial Mortgage Trust, 5.617%, 10/15/48, CMO (d)	Aaa/AAA	928,199
496	Countrywide Alternative Loan Trust, 2.752%, 2/25/37, CMO, FRN	Aaa/AAA	319,600
	GSMPS Mortgage Loan Trust, CMO (a)(d),		
3,296	7.50%, 12/21/26, VRN	NR/NR	3,330,774
165	7.50%, 6/19/32, VRN	NR/NR	176,981
5,305	7.50%, 6/25/43	NR/NR	5,291,731
1,000	LB-UBS Commercial Mortgage Trust, 5.424%, 2/15/40, CMO	NR/AAA	894,777
323	MASTR Reperforming Loan Trust, 7.00%, 8/25/34, CMO (a)(d)	Aaa/NR	321,601
129	Washington Mutual, Inc., 7.50%, 4/25/33, CMO	NR/AAA	123,455
	Total Mortgage-Backed Securities (cost $11,986,558)		11,387,118
SOVEREIGN DEBT OBLIGATIONS 0.7%			
Brazil 0.2%			
BRL 3,900	Federal Republic of Brazil, 10.25%, 1/10/28	Ba1/BBB-	2,208,989
Panama 0.4%			
$5,308	Republic of Panama, 9.375%, 4/1/29	Ba1/BB+	7,046,370
Ukraine 0.1%			
1,000	Republic of Ukraine, 7.65%, 6/11/13	B1/B+	962,310
	Total Sovereign Debt Obligations (cost $10,483,420)		10,217,669
ASSET-BACKED SECURITIES 0.6%			
8,300	Greenpoint Manufactured Housing, 8.30%, 10/15/26, VRN	Ca/NR	7,210,655
341	Morgan Stanley ABS Capital I, 2.532%, 5/25/37, FRN	Aaa/AAA	310,438
577	SLM Student Loan Trust, 2.80%, 10/25/16, FRN	Aaa/AAA	574,336
	Total Asset-Backed Securities (cost $8,269,674)		8,095,429

Shares

CONVERTIBLE PREFERRED STOCK 0.1%
Insurance 0.1%

25,850	American International Group, Inc., 8.50%, 8/1/11 (cost $1,938,750)	A3/NR	1,288,623

PIMCO Corporate Opportunity Fund Schedule of Investments

August 31, 2008 (unaudited)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value*
SHORT-TERM INVESTMENTS 10.1%			
Corporate Notes 3.4%			
Banking 1.1%			
$15,000	Republic New York Corp., 9.70%, 2/1/09	A1/A+	$15,297,435
Financial Services 0.8%			
4,990	General Electric Capital Corp., 9.83%, 12/15/08 (f)	NR/NR	5,087,123
5,910	General Motors Acceptance Corp. LLC, 3.951%, 9/23/08, FRN	B3/B-	5,884,806
			10,971,929
Multi-Media 0.3%			
4,500	CSC Holdings, Inc., 8.125%, 8/15/09	B1/BB	4,578,750
Telecommunications 0.4%			
5,000	Qwest Capital Funding, Inc., 7.00%, 8/3/09	B1/B+	5,018,750
1,000	Sprint Capital Corp., 6.375%, 5/1/09	Baa3/BB	1,007,665
			6,026,415
Utilities 0.8%			
10,756	Midwest Generation LLC, 8.30%, 7/2/09	Baa3/BB+	10,890,249
	Total Corporate Notes (cost $46,503,806)		47,764,778
U.S. Treasury Bills (h) 3.2%			
45,450	1.69%-1.92%, 9/11/08-11/28/08 (cost $45,413,727)		45,412,139
Repurchase Agreements 3.5%			
2,000	Credit Suisse First Boston, dated 8/29/08, 1.85%, due 9/2/08, proceeds $2,000,411; collateralized by U.S. Treasury Inflation Index Note, 1.375%, due 7/15/18, valued at $2,046,906 including accrued interest		2,000,000
45,200	Deutsche Bank, dated 8/29/08, 1.98%, due 9/2/08, proceeds $45,209,944; collateralized by U.S. Treasury Inflation Index Note, 1.75%, due 1/15/28, valued at $45,665,240 including accrued interest		45,200,000
2,973	State Street Bank & Trust Co., dated 8/29/08, 1.65%, due 9/2/08, proceeds $2,973,545; collateralized by Fannie Mae Discount Note, 3.609%, due 9/24/08, valued at $3,037,388 including accrued interest		2,973,000
	Total Repurchase Agreements (cost $50,173,000)		50,173,000
	Total Short-Term Investments (cost $142,090,533)		143,349,917

PIMCO Corporate Opportunity Fund Schedule of Investments

August 31, 2008 (unaudited)

Contracts/ Notional Amount		Value*
OPTIONS PURCHASED (i) **0.1%**		
	Call Options 0.1%	
	2-Year Interest Rate Swap (OTC),	
	Pay 3-Month USD-LIBOR Floating Rate Index,	
111,000,000	strike rate 3.63%, expires 1/7/09	$259,085
3,900,000	strike rate 5.00%, expires 8/28/09	85,223
	Euro versus U.S. Dollar (OTC),	
5,000,000	strike rate 1.37%, expires 6/3/10	541,089
3,600,000	strike rate 1.38%, expires 5/21/10	381,624
	U.S. Treasury Notes 10 yr. Futures (CBOT),	
1,045,000	strike price $140, expires 11/21/08	16,118
		1,283,139
	Put Options 0.0%	
	9-Year Interest Rate Swap (OTC),	
	Pay 3-Month USD-LIBOR Floating Rate Index,	
111,000,000	strike rate 5.45%, expires 1/7/09	283,516
	Euro versus U.S. Dollar (OTC),	
5,000,000	strike rate 1.37%, expires 6/3/10	245,682
3,600,000	strike rate 1.38%, expires 5/21/10	178,110
	Fannie Mae (OTC),	
10,000,000	strike price $74, expires 11/6/08	
	Financial Future Euro 90 day (CME),	
308	strike price $89.75, expires 9/14/09	1,925
345	strike price $90, expires 6/15/09	2,156
55	strike price $90, expires 9/14/09	343
800	strike price $90, expires 12/14/09	5,000
495	strike price $91.25, expires 12/15/08	1
586	strike price $91.50, expires 6/15/09	1
334	strike price $91.75, expires 12/14/09	1
719	strike price $92, expires 9/15/08	4,493
	U.S. Treasury Notes 10 yr. Futures (CBOT),	
1,000	strike price $99, expires 11/21/08	15,438
		736,666
	Total Options Purchased (cost $2,917,790)	2,019,805
	Total Investments before options written (cost $1,495,755,910) **100.0%**	**1,424,200,830**
OPTIONS WRITTEN (i) **(0.0)%**		
	Call Options (0.0)%	
	7-Year Interest Rate Swap (OTC),	
	Pay 3-Month USD-LIBOR Floating Rate Index,	
100,000	strike rate 5.15%, expires 9/8/09	
	Total Options Written (premiums received $2,904)	(4,683)
	Total Investments net of options written (cost $1,495,753,006) **100.0%**	**$1,424,196,147**

Subsequent Event Market Conditions

Recent events in the financial sector have resulted in an unusually high degree of volatility in the financial markets and the net asset value of many mutual funds, including to some extent the Fund. Such events occurring subsequent to the date of this report have included, but are not limited to, the secure of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation by U.S banking regulators, and the bankruptcy filing of Lehman Brothers, and the sales of Merrill Lynch to Bank of America, Washington Mutual to J.P. Morgan Chase, Wachovia to Wells Fargo and the U.S. Government bailout of AIG. These companies represent investment banks with which the Fund may conduct business, and/or whose securities are or may be held by the Fund. The potential investment of the Fund s investments in these issuers, and the financial sector in general, as reflected in the Fund s Schedule of Investment, exposes investors to the negative (for positive) performance resulting from these and other events.

PIMCO Corporate Opportunity Fund Schedule of Investments

August 31, 2008 (unaudited)

Notes to Schedule of Investments:

* Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is generally determined on the basis of last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or pricing service.

Portfolio securities and other financial instruments for which market quotations are not readily available or if a development/event occurs that may significantly impact the value of a security are fair valued, in good faith, pursuant to procedures established by the Board of Trustees or person acting at their discretion pursuant to procedures established by the Board of Trustees, including certain fixed income securities which may be valued with reference to securities whose prices are more readily available. The Fund s investments, including over-the-counter options, are valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the last quoted mean price for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales. Prices obtained from independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Exchange traded options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Securities purchased on a when-issued or delayed delivery basis are marked to market daily until settlement at the forward settlement value. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days. Investments initially valued in currencies other than the U.S. dollar are converted to U.S. dollar using exchange rates obtained from pricing services. As a result, the net asset value (NAV) of the Fund s shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of securities traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the New York Stock Exchange (NYSE) is closed and the NAV may change on days when an investor is not able to purchase or sell shares. The prices used by the Fund to value securities may differ from the value that would be realized if the securities were sold. The Fund s NAV is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the NYSE on each day the NYSE is open for business.

(a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of $190,210,503, representing 13.4% of total investments.

(b) Illiquid security.

(c) These securities generally pay interest at rates which are periodically pre-determined by reference to a base lending rate plus a premium. These base lending rates are generally either the lending rate offered by one or more major European banks, such as the LIBOR or the prime rate offered by one or more major United States banks, or the certificate of deposit rate. These securities are generally considered to be restricted as the Fund is ordinarily contractually obligated to receive approval from the Agent bank and/or borrower prior to disposition. Remaining maturities of Senior Loans may be less than the stated maturities shown as a result of contractual or optional payments by the borrower. Such prepayments cannot be predicted with certainty. The interest rate disclosed reflects the rate in effect on August 31, 2008.

(d) 144A Security Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.

(e)	Delayed-delivery security. To be delivered after August 31, 2008.
(f)	Fair-valued securities with an aggregate value of $5,087,123, representing 0.36% of total investments.
(g)	Perpetual maturity security. Maturity date shown is the first call date. Interest rate is fixed until the first call date and variable thereafter.
(h)	All or partial amount segregated as collateral for futures contracts, written options and swaps.
(i)	Non-income producing.
(j)	Residual Interest Bonds held in trust Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which the Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.
(k)	Issuer in default as of September 16, 2008

Glossary:

Euro
£ Great British Pound
ABS Asset Backed Securities
BRL Brazilian Real
CBOT Chicago Board of Trade
CME Chicago Mercantile Exchange
CMO Collateralized Mortgage Obligation
FRN Floating Rate Note. The interest rate disclosed reflects the rate in effect on August 31, 2008.
LIBOR London Inter-Bank Offered Rate
MBS Mortgage-Backed Security
NR Not Rated
OTC Over-the-Counter
TBA To Be Announced
VRN Variable Rate Note. Instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on August 31, 2008.

Other Investments:

(1) Futures contracts outstanding at August 31, 2008:

	Type	Contracts	Market Value (000)	Expiration Date	Unrealized Appreciation (Depreciation)
Long:	Financial Future Euro 90 day	1,500	$362,663	9/14/09	$1,256,250
	Financial Future Euro 90 day	800	192,860	12/14/09	(24,776)
	U.S. Treasury Bonds 30 yr. Futures	242	28,390	12/19/08	(107,609)
	U.S. Treasury Notes 10 yr. Futures	1,066	124,389	9/19/08	2,370,547
	U.S. Treasury Notes 10 yr. Futures	718	82,929	12/19/08	20,145
	Euro-Bund 10 yr. Futures	33	5,546	9/9/08	89,016
	Euribor Future	69	24,228	6/16/09	186,794
	Euribor Future	730	256,689	12/15/09	(687,729)
	United Kingdom 90 day	300	64,988	6/18/09	288,603
	United Kingdom 90 day	346	74,938	12/17/09	244,785
	United Kingdom 90 day	500	108,388	9/17/09	(38,652)
	United Kingdom 90 day	89	19,135	12/18/08	(59,436)
					$3,537,938

The Fund received $8,566,000 in cash as collateral for futures contracts.

(2) Transactions in options written for the nine months ended August 31, 2008:

	Contracts/Notional	Premiums
Options outstanding, November 30, 2007	285,901,400	$8,450,916
Options written	52	32,776
Options terminated in closing transactions	(285,801,452)	(8,480,788)
Options outstanding, August 31, 2008	100,000	$2,904

(3) Credit default swap contracts outstanding at August 31, 2008:

Swap Counterparty/ Referenced Debt Issuer	Notional Amount Payable on Default (000)	Termination Date	Payments Received (Paid) by Fund	Unrealized Appreciation (Depreciation)
Bank of America:				
American International Group	$10,000	3/20/13	2.10%	$(562,034)
Citigroup	8,200	12/20/12	0.65%	(281,223)
Ford Motor Credit	10,000	3/20/12	2.55%	(2,656,987)
Freeport-McMoRan	7,000	6/20/12	0.90%	(119,392)
LCDX	23,900	6/20/13	3.25%	202,896
Barclays Bank:				
Allied Waste	5,000	6/20/13	3.70%	398,339
Autozone	1,900	6/20/13	(0.875)%	7,423
Dow Jones CDX	15,000	12/20/12	(7.05)%	(420,201)
General Electric	27,300	12/20/12	0.63%	(952,758)
Sprint Nextel	3,000	6/20/09	7.15%	153,272
BNP Paribas:				
Royal Bank of Scotland	3,500	6/20/13	1.50%	36,203
Royal Bank of Scotland	3,500	6/20/13	2.65%	113,871
Citigroup:				
Bear Stearns	7,200	9/20/12	0.48%	(157,907)
Ford Motor Credit	32,400	9/20/08	1.35%	(57,114)
Freeport-McMoRan	5,800	6/20/12	1.00%	(77,580)
GMAC	10,000	6/20/12	1.40%	(3,849,451)
Credit Suisse First Boston:				
Chesapeake Energy	2,000	6/20/12	1.01%	(86,954)
Gazprom	5,100	11/20/08	1.00%	11,389
GMAC	4,200	9/20/09	3.74%	(600,315)
Deutsche Bank:				
American International Group	4,100	12/20/12	0.89%	(404,122)
Chesapeake Energy	1,000	6/20/12	1.05%	(42,038)
Chesapeake Energy	400	3/20/14	1.32%	(23,888)
Dow Jones CDX	10,000	12/20/12	(7.05)%	(280,134)
Dow Jones CDX	17,000	12/20/12	0.68%	175,837
Dow Jones CDX	128,600	6/20/13	(1.55)%	58,952
Federal Republic of Brazil	14,300	5/20/12	0.69%	(154,406)
Federal Republic of Brazil	1,300	5/20/17	1.04%	(43,173)
GMAC	11,800	9/20/09	1.50%	(1,990,458)
Metlife	7,000	3/20/13	2.073%	85,651
Goldman Sachs:				
Chesapeake Energy	1,300	3/20/14	1.32%	(77,637)
Citigroup	4,100	12/20/12	0.77%	(120,714)
Dow Jones CDX	15,000	12/20/12	(7.02)%	(403,146)
Dow Jones CDX	21,900	6/20/13	(1.55)%	35,476
Echostar	5,000	6/20/09	0.54%	(24,950)
Ford Motor Credit	4,600	3/20/09	1.70%	(160,155)
JPMorgan Chase:				
AIS	9,000	3/20/13	2.062%	(518,701)
Bear Stearns	3,000	9/20/12	0.67%	(43,586)
GMAC	8,100	6/20/12	1.84%	(3,039,192)
Republic of Panama	12,700	3/20/09	0.30%	3,165
Lehman Brothers:				
American International Group	3,500	12/20/12	0.85%	(350,042)
Chesapeake Energy	2,700	3/20/14	1.16%	(181,916)
Citigroup	4,000	12/20/12	0.70%	(129,093)

Dow Jones CDX	32,500	12/20/12	3.20%	(2,701,411)

Swap Counterparty/ Referenced Debt Issuer	Notional Amount Payable on Default (000)	Termination Date	Payments Received (Paid) by Fund	Unrealized Appreciation (Depreciation)
Federal Republic of Brazil	5,650	2/20/12	0.93%	(15,119)
Federal Republic of Brazil	1,500	2/20/17	1.51%	(3,725)
Freescale Semiconductor	5,000	6/20/09	1.62%	(90,731)
HCA	5,000	6/20/09	1.00%	(35,578)
MGM	10,000	6/20/09	0.63%	(253,204)
MGM	5,000	6/20/09	0.65%	(125,603)
Pemex	7,800	3/20/09	0.34%	16,905
Proctor & Gamble	10,000	9/20/08	0.07%	240
Reynolds American	4,000	6/20/12	1.00%	(1,423)
Sprint Nextel	1,500	3/20/09	6.00%	46,741
United Mexican States	7,400	3/20/09	0.24%	11,904
United Mexican States	11,000	1/20/17	0.67%	(510,704)
Merrill Lynch & Co.:				
American International Group	4,000	12/20/12	0.90%	(392,819)
Citigroup	10,000	12/20/12	0.68%	(330,822)
Dow Jones CDX	32,500	12/20/12	3.215%	(2,682,189)
Dow Jones CDX	26,700	6/20/13	(1.55)%	(94,537)
El Paso	5,000	6/20/09	0.45%	(30,445)
Ford Motor	17,000	6/20/13	5.00%	(2,401,842)
General Motors	7,000	6/20/13	5.00%	(1,653,209)
Lyondell Chemical	5,000	6/20/09	1.00%	(203,315)
Vale Overseas	2,000	4/20/12	0.50%	(45,281)
Morgan Stanley:				
Chesapeake Energy	5,000	6/20/09	0.45%	(27,508)
Citigroup	7,300	12/20/12	0.80%	(206,073)
Dow Jones CDX	100,000	12/20/12	(1.40)%	(149,441)
Dow Jones CDX	30,000	12/20/12	0.72%	361,013
Dow Jones CDX	13,600	6/20/13	(1.55)%	35,502
Dow Jones CDX	243,300	6/20/18	(1.50)%	(135,477)
Dynegy Holdings	5,000	6/20/09	1.05%	(4,940)
Ford Motor Credit	20,000	9/20/10	4.05%	(3,339,697)
General Motors	3,300	6/20/13	5.00%	(779,370)
LCDX	19,400	6/20/13	3.25%	164,694
Reliant Energy	5,000	6/20/09	1.05%	(13,232)
Republic of Indonesia	7,700	3/20/09	0.46%	(2,773)
Republic of Peru	7,700	3/20/09	0.32%	13,942
Russian Federation	7,800	3/20/09	0.31%	(5,570)
Republic of Ukraine	7,700	3/20/09	0.66%	(42,984)
Royal Bank of Scotland:				
ARAMARK	5,000	6/20/12	2.32%	(293,569)
Autozone	6,000	6/20/13	(0.92)%	11,326
Freeport-McMoRan	6,000	6/20/09	0.32%	(21,180)
RadioShack Corp.	7,100	6/20/13	(1.455)%	161,238
Williams Cos.	5,000	6/20/09	0.30%	(6,182)
UBS:				
BRL-CDI-Compounded	82,100	6/20/13	(1.55)%	120,139
LCDX	35,700	6/20/13	3.25%	323,920
				$(31,859,182)

(4) Interest rate swap agreements outstanding at August 31, 2008:

Swap Counterparty	Notional Amount (000)	Termination Date	Rate Type Payments Made by Fund	Payments Received by Fund	Unrealized Appreciation (Depreciation)
Barclays Bank	22,000	9/17/10	6-month EUR-LIBOR	5.00%	$317,641
Barclays Bank	$15,600	12/17/13	3-Month USD-LIBOR	4.00%	176,576
Barclays Bank	6,800	9/17/18	5.00%	6-month EUR-LIBOR	(247,098)
Barclays Bank	$650,000	12/18/24	3-Month USD-LIBOR	5.70%	35,494,299
Barclays Bank	700,000	12/19/24	5.70%	3-Month USD-LIBOR	(42,669,481)
Citigroup	AUD 54,300	3/20/13	6-Month Australian Bank Bill	7.00%	1,528,421
Citigroup	$62,800	12/17/13	3-Month USD-LIBOR	4.00%	303,877
Citigroup	900	12/17/15	3-Month USD-LIBOR	5.00%	7,170
Credit Suisse First Boston	57,400	12/17/13	3-Month USD-LIBOR	4.00%	(175,130)
Goldman Sachs	MXN 106,500	11/4/16	28-Day Mexico Interbank TIIE Banxico	8.17%	(568,984)
HSBC Bank	£12,900	12/15/35	4.00%	6-Month GBP-LIBOR	296,517
JPMorgan Chase	$932,400	12/17/09	3-Month USD-LIBOR	4.00%	(856,708)
Lehman Brothers	AUD 4,000	3/15/11	6-Month Australian Bank Bill	7.50%	14,822
Lehman Brothers	AUD 14,400	6/15/11	6-Month Australian Bank Bill	7.50%	73,341
Lehman Brothers	$740,200	1/9/18	3.63%	3-Month USD-LIBOR	(4,240,270)
Lehman Brothers	740,200	1/9/18	3-Month USD-LIBOR	5.45%	8,016,041
Merrill Lynch & Co.	527,600	6/17/10	3-Month USD-LIBOR	4.00%	4,782,625
Morgan Stanley	53,000	12/17/13	3-Month USD-LIBOR	4.00%	635,622
Morgan Stanley	52,400	12/17/18	3-Month USD-LIBOR	5.00%	1,134,906
Royal Bank of Scotland	70,100	12/17/09	3-Month USD-LIBOR	4.00%	47,557
Royal Bank of Scotland	338,500	6/17/10	3-Month USD-LIBOR	4.00%	3,128,542
Royal Bank of Scotland	2,300	12/17/15	3-Month USD-LIBOR	5.00%	32,227
Royal Bank of Scotland	471,200	2/25/17	4.38%	3-Month USD-LIBOR	13,916,576
Royal Bank of Scotland	£19,600	7/17/27	5.639%	3-Month GBP-LIBOR	(3,495,440)
Royal Bank of Scotland	£19,600	7/17/27	6-Month GBP-LIBOR	4.84%	248,255
UBS	BRL 17,970	1/2/12	BRL-CDI-Compounded	10.575%	(781,509)
					$17,120,395

The Fund received $17,500,000 par value in U.S. Treasury Bills as collateral for swap contracts.

(5) Forward foreign currency contracts outstanding at August 31, 2008:

	U.S.$ Value Origination Date	U.S.$ Value August 31, 2008	Unrealized Appreciation (Depreciation)
Purchased:			
1,177,693 Australian Dollar settling 10/16/08	$1,011,450	$1,008,351	$(3,099)
34,282,600 Brazilian Real settling 12/2/08	18,596,203	20,493,859	1,897,656
1,226,249 Canadian Dollar settling 9/22/08	1,164,734	1,156,614	(8,120)
26,172,300 Chinese Yuan Renminbi settling 10/10/08	3,850,000	3,831,878	(18,122)
32,854,226 Chinese Yuan Renminbi settling 7/15/09	5,080,000	4,919,390	(160,610)
5,356,213 Mexican Peso settling 11/19/08	504,868	514,397	9,529
19,856,972 Malaysian Ringgit settling 11/12/08	6,127,166	5,858,116	(269,050)
24,380,000 Norwegian Krone settling 9/9/08	4,679,103	4,502,822	(176,281)
136,700,000 Philippines Peso settling 11/12/08	3,083,675	2,965,536	(118,139)
107,043,010 Philippines Peso settling 2/6/09	2,386,963	2,310,604	(76,359)
35,844,678 Polish Zloty settling 5/6/09	15,868,903	15,522,307	(346,596)
331,466,500 Russian Ruble settling 11/19/08	13,425,404	13,362,214	(63,190)
42,079,250 Russian Ruble settling 5/6/09	1,725,974	1,672,067	(53,907)
8,650,412 Singapore Dollar settling 10/6/08	6,306,604	6,125,705	(180,899)
19,252,832 Singapore Dollar settling 11/21/08	14,116,636	13,660,363	(456,273)
Sold:			
1,573,000 Australian Dollar settling 9/18/08	1,373,103	1,351,447	21,656
23,010,602 Brazilian Real settling 12/2/08	13,181,945	13,755,550	(573,605)
16,819,000 Euro settling 9/25/08	24,954,358	24,728,090	226,268
13,539,000 British Pound settling 9/22/08	26,300,090	24,652,705	1,647,385
266,026,600 Russian Ruble settling 11/19/08	11,096,000	10,724,174	371,826
			$1,670,070

EUR/ Euros

AUD Australian Dollar

BRL Brazilian Real

CDI Interbank Deposit Certificate

GBP/£ Great British Pound

LIBOR London Inter-Bank Offered Rate

MXN Mexican Peso

TIIE Inter-bank Equilibrium Interest Rate

(6) Short sales outstanding at August 31, 2008:

	Coupon	Maturity	Par	Proceeds	Value

U.S. Treasury Bonds & Notes	3.375%	6/30/13	$43,100,000	$43,728,698	$43,719,606
U.S. Treasury Bonds & Notes	5.00%	5/15/37	104,500,000	112,435,015	114,223,412
					$157,943,018

Fair Value Measurements Effective December 1, 2007, the Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of the fair value measurements. The three levels of the fair value hierarchy under FAS 157 are described below

- Level 1 quoted prices in active markets for identical investments
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 significant unobservable inputs (including the Fund s own assumptions in determining the fair value of investments)

The valuation techniques used by the Fund to measure fair value during the nine months ended August 31, 2008 maximized the use of obsevable inputs and minimized the use of unobservable inputs. The Fund utilized the following fair value techniques: multi-dimensional relational pricing model and option adjusted spread pricing.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used at August 31, 2008, in valuing the Fund s investments carried at value:

Valuation Inputs	**Investments in Securities**	**Other Financial Instruments**
Level 1 - Quoted Prices	$1,288,623	$3,537,938
Level 2 - Other Significant Observable Inputs	1,417,820,401	(175,590,445)
Level 3 - Significant Unobservable Inputs	5,087,123	4,578,710
Total	$1,424,196,147	$(167,473,797)

A roll forward of fair value measurements using significant unobservable inputs (Level 3) as of August 31, 2008, were as follows:

	Investments in Securities	Other Financial Instruments
Beginning balance, 11/30/07	$28,274,622	$10,171,237
Net purchases (sales) and settlements	(1,388,073)	(10,149,000)
Accrued discounts (premiums)	(269,255)	
Total realized and unrealized gain (loss)	(3,253,870)	4,556,473
Transfers in and/or out of Level 3	(18,276,301)	
Ending balance, 8/31/08	$5,087,123	$4,578,710

Item 2. Controls and Procedures

(a) The registrant s President & Chief Executive Officer and Treasurer, Principal Financial & Accounting Officer have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Act (17 CFR 270.30a-3(c))), are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes in the registrant s internal controls over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d))) that occured during the registrant s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 3. Exhibits

(a) Exhibit 99.302 Cert. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant: PIMCO Corporate Opportunity Fund

By /s/ Brian S. Shlissel
President & Chief Executive Officer

Date: October 22, 2008

By /s/ Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Date: October 22, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ Brian S. Shlissel
President & Chief Executive Officer

Date: October 22, 2008

By /s/ Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Date: October 22, 2008