FOOTHILLS RESOURCES INC
Form 424B3
November 14, 2008

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Filed Pursuant to Rule 424(b)(3)
Registration Number 333-137925

FOOTHILLS RESOURCES, INC.
48,700,960 Shares of Common Stock and
Warrants to Acquire 20,597,532 Shares of Common Stock
PROSPECTUS SUPPLEMENT NO. 2 DATED NOVEMBER 14, 2008
(TO PROSPECTUS DATED JUNE 23, 2008)

This prospectus supplement relates to the prospectus dated June 23, 2008, relating to the resale of up to 48,700,960 shares of common stock and warrants to acquire 20,597,532 shares of common stock by the selling stockholders named in the prospectus.

This prospectus supplement contains our quarterly report on Form 10-Q for the quarter ended September 30, 2008, as filed with the Securities and Exchange Commission on November 14, 2008, and the information contained in the Form 10-Q supplements the information provided in the prospectus dated June 23, 2008. The text of the Form 10-Q is attached hereto and is incorporated by reference.

This prospectus supplement should be read in conjunction with, and may not be delivered or utilized without, the prospectus dated June 23, 2008 and all other supplements and amendments, and this prospectus supplement is qualified by reference to the prospectus, except to the extent that the information in this prospectus supplement supersedes the information contained in the prospectus. Our common stock is quoted on the Over The Counter Bulletin Board under the symbol FTRS.

Investing in these securities involves significant risks. See Risk Factors beginning on page 2 of the prospectus dated June 23, 2008.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of the prospectus. Any representation to the contrary is a criminal offense.

THE DATE OF THIS PROSPECTUS SUPPLEMENT IS NOVEMBER 14, 2008.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2008.

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 001-31547

FOOTHILLS RESOURCES, INC.

(Exact Name of Registrant as Specified in Its Charter)

NEVADA	**98-0339560**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
4540 CALIFORNIA AVENUE, SUITE 550 BAKERSFIELD, CALIFORNIA	**93309**
(Address of Principal Executive Offices)	(Zip Code)

(661) 716-1320

(Registrant s Telephone Number, Including Area Code)

Former Name, Former Address and Former Fiscal year, if Changed Since Last Report

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

Yes þ No o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

Indicate the number of shares outstanding of each of Issuer s classes of common stock as of the latest practicable date: 60,557,637 shares of common stock, $0.001 par value, outstanding as of October 31, 2008.

FOOTHILLS RESOURCES, INC.
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2008
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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FOOTHILLS RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	September 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 91	$ 165
Accounts receivable	1,080	1,880
Prepaid expenses	285	212
	1,456	2,257
Property, plant and equipment, at cost:		
Oil and gas properties, using full-cost accounting -		
Proved properties	89,340	75,215
Unproved properties not being amortized	1,234	760
Other property and equipment	535	533
	91,109	76,508
Less accumulated depreciation, depletion, amortization	(6,419)	(3,554)
	84,690	72,954
Other assets	3,318	3,413
	$ 89,464	$ 78,624
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,664	$ 5,669
Current portion of long-term debt	69,270	
Fair value of derivative financial instruments	4,285	3,228
Liquidated damages	2,593	2,591
	78,812	11,488
Long-term debt		52,243

Asset retirement obligations	662	628
Fair value of derivative financial instruments	3,679	3,571
Stockholders equity:		
Preferred stock, $0.001 par value - 25,000,000 shares authorized, none issued and outstanding		
Common stock, $0.001 par value - 250,000,000 shares authorized, 60,557,637 and 60,572,442 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	61	61
Additional paid-in capital	47,471	47,224
Accumulated deficit	(33,257)	(29,792)
Accumulated other comprehensive income (loss)	(7,964)	(6,799)
	6,311	10,694
	$ 89,464	$ 78,624

The accompanying notes are an integral part of these consolidated financial statements.

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FOOTHILLS RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share amounts)
(unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Income:				
Oil and gas revenues	$ 2,795	$ 3,638	$ 11,291	$ 10,941
Interest income	1	59	12	222
	2,796	3,697	11,303	11,163
Expenses:				
Production costs	1,311	1,171	3,935	3,530
General and administrative	883	760	2,497	2,407
Interest	1,926	2,629	5,436	7,760
Liquidated damages		702	1	1,895
Depreciation, depletion and amortization	860	607	2,899	1,880
	4,980	5,869	14,768	17,472
Net loss	$ (2,184)	$ (2,172)	$ (3,465)	$ (6,309)
Basic and diluted net loss per share	$ (0.04)	$ (0.04)	$ (0.06)	$ (0.10)
Weighted average number of common shares outstanding basic and diluted	60,557,637	60,462,670	60,562,878	60,419,593

The accompanying notes are an integral part of these consolidated financial statements.

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FOOTHILLS RESOURCES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30, 2008	2007
Cash flows from operating activities:		
Net loss	$ (3,465)	$ (6,309)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock-based compensation	335	356
Depreciation, depletion and amortization	2,865	1,847
Accretion of asset retirement obligation	34	33
Amortization of discount on long-term debt	342	2,647
Amortization of debt issue costs	539	161
Changes in assets and liabilities -		
Accounts receivable	800	(55)
Prepaid expenses	(73)	(134)
Accounts payable and accrued liabilities	305	(1,072)
Liquidated damages	1	1,895
Net cash provided by (used for) operating activities	1,683	(631)
Cash flows from investing activities:		
Additions to oil and gas properties	(17,921)	(3,707)
Additions to other property and equipment	(2)	(58)
Net cash used for investing activities	(17,923)	(3,765)
Cash flows from financing activities:		
Proceeds of borrowings	26,389	
Repayments of borrowings	(9,704)	
Debt issuance costs	(444)	
Stock issuance costs	(75)	(68)
Net cash provided by (used for) financing activities	16,166	(68)
Net decrease in cash and cash equivalents	(74)	(4,464)
Cash and cash equivalents at beginning of the period	165	8,673
Cash and cash equivalents at end of the period	$ 91	$ 4,209

Supplemental disclosures of cash flow information:		
Cash paid for -		
Interest	$ 4,211	$ 4,969
Income taxes	$	$

The accompanying notes are an integral part of these consolidated financial statements.

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FOOTHILLS RESOURCES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(in thousands, except share amounts)

	Common Stock Number	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2006	60,376,829	$ 60	$ 44,331	$ (3,764)	$ 1,595	$ 42,222
Issuance of common stock and warrants	85,841		2,504			2,504
Stock-based compensation	109,772	1	499			500
Change in fair value of derivative financial instruments					(8,394)	(8,394)
Stock issuance costs			(110)			(110)
Net loss				(26,028)		(26,028)
Balance, December 31, 2007	60,572,442	61	47,224	(29,792)	(6,799)	10,694
Stock-based compensation (unaudited)	(14,805)		322			322
Change in fair value of derivative financial instruments (unaudited)					(1,165)	(1,165)
Stock issuance costs (unaudited)			(75)			(75)
Net loss (unaudited)				(3,465)		(3,465)
Balance, September 30, 2008 (unaudited)	60,557,637	$ 61	$ 47,471	$ (33,257)	$ (7,964)	$ 6,311

The accompanying notes are an integral part of these consolidated financial statements.

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(unaudited)

Note 1 Summary of Operations

Foothills Resources, Inc. (Foothills), a Nevada corporation, and its subsidiaries are collectively referred to herein as the Company. The Company is a growth-oriented independent energy company engaged in the acquisition, exploration, exploitation and development of oil and natural gas properties. The Company currently holds interests in properties in the Texas Gulf Coast area, in the Eel River Basin in northern California, and in the Anadarko Basin in western Oklahoma.

Foothills took its current form on April 6, 2006, when Brasada California, Inc. (Brasada) merged with and into an acquisition subsidiary of Foothills. Brasada was formed on December 29, 2005 as Brasada Resources LLC, a Delaware limited liability company, and converted to a Delaware corporation on February 28, 2006. Following the merger, Brasada changed its name to Foothills California, Inc. (Foothills California) and is now a wholly owned operating subsidiary of Foothills. This transaction was accounted for as a reverse merger of the Company into Foothills California. The Company adopted the assets, management, business operations and business plan of Foothills California. The financial statements of the Company prior to the merger were eliminated at consolidation.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 4, the Company was not in compliance with the asset coverage and leverage ratio covenants of its Credit Facility as of June 30, 2008, and is in default under the Credit Facility. The lenders and the agent agreed to forbear, until December 31, 2008, from exercising their rights and remedies under the Credit Facility arising as a result of the financial covenants defaults. The Company is considering and actively pursuing other strategic alternatives, which may include a sale of a portion of the Company s assets, a merger or other business combination, or the issuance of equity or other securities, in connection with the repayment of all or a portion of the Company s obligations under the Credit Facility. All of these factors raise substantial doubt about the Company s ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company can not continue in existence.

All adjustments which are, in the opinion of management, necessary for a fair presentation of the Company s financial position at September 30, 2008 and its results of operations and cash flows for the three months and nine months ended September 30, 2008 and 2007 have been included. All such adjustments are of a normal recurring nature. The results of operations and cash flows are not necessarily indicative of the results for a full year.

The accompanying unaudited financial statements have been prepared on a basis consistent with the accounting principles and policies reflected in the December 31, 2007 financial statements. The December 31, 2007 Form 10-KSB should be read in conjunction herewith. The year-end balance sheet does not include all disclosures required by accounting principles generally accepted in the United States of America.

Note 2 New Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162), which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States of America (the GAAP hierarchy). This statement is effective 60 days following the Securities and Exchange Commission s (the SEC) approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in

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Conformity with Generally Accepted Accounting Principles. The adoption of SFAS No. 162 is not expected to have a material effect on the Company s financial statements or related disclosures.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No.133 (SFAS No. 161). This statement requires enhanced disclosures about derivative and hedging activities. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact, if any, the standard will have on its financial statements.

During December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51 (SFAS No. 160), which causes noncontrolling interests in subsidiaries to be included in the equity section of the balance sheet. SFAS No. 160 is effective for periods beginning on or after December 15, 2008. This standard does not presently affect the Company s financial statements.

During December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS No. 141(R)), which establishes new accounting and disclosure requirements for recognition and measurement of identifiable assets, liabilities and goodwill acquired and requires that the fair value estimates of contingencies acquired or assumed be considered as part of the original purchase price allocation. SFAS No. 141(R) is effective for periods beginning on or after December 15, 2008. This standard does not presently affect the Company s financial statements.

Note 3 Asset Retirement Obligation

Inherent in the fair value calculation of the asset retirement obligation (ARO) are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO, a corresponding adjustment is made to the capitalized costs of oil and gas properties.

Under SFAS No. 143, the following table summarizes the change in the ARO for the nine months ended September 30, 2008 (in thousands):

Asset retirement obligation, beginning of period	$ 628
Accretion expense	34
Asset retirement obligation, end of period	$ 662

Note 4 Debt Obligations

Debt obligations at September 30, 2008 and December 31, 2007 consisted of the following (in thousands):

	2008	**2007**
Senior term loan	$ 50,000	$ 50,000
Revolving loan	21,185	4,500
	71,185	54,500
Less: unamortized discount	(1,915)	(2,257)
	69,270	52,243
Less: current portion	(69,270)	
	$	$ 52,243

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In 2007, the Company entered into a Credit Agreement with various lenders and Wells Fargo Foothill, LLC, as agent (the Credit Facility). The Credit Facility provides for a $50 million term loan facility and a $50 million revolving credit facility, with an initial borrowing base of $25 million available under the revolving credit facility. The Credit Facility matures in December 2012, with principal payments scheduled to commence in April 2010 based on 50% of the Company s cash flow, net of capital expenditures. The Credit Facility has restrictions on the operations of the Company s business, including restrictions on payment of dividends. Borrowings under the term loan facility carry prepayment penalties ranging from 1.00% to 2.00% in the first three years of the Credit Facility. Borrowings under the revolving credit facility may be repaid at any time without penalty. The Credit Facility is secured by liens and security interests on substantially all of the assets of the Company, including 100% of the Company s oil and gas reserves. In connection with the Credit Facility, Foothills issued to the lender under the term loan facility a ten-year warrant to purchase 2,580,159 shares of Foothills common stock at an exercise price of $0.01 per share. The fair value of the warrant was recorded as debt issue discount, and is being amortized using the interest method.

The Credit Facility contains financial covenants pertaining to asset coverage, interest coverage and leverage ratios. A violation of any of these financial covenants, unless waived by the Company s lenders, constitutes an event of default under the Credit Facility, giving the Company s lenders the right to terminate their obligations to make additional loans under the Credit Facility, demand immediate payment in full of all amounts outstanding, foreclose on collateral and exercise other rights and remedies granted under the Credit Facility and as may be available pursuant to applicable law. As of March 31, 2008, the Company was not in compliance with the leverage ratio covenant. On May 15, 2008, the Company, the lenders and the agent entered into a First Amendment to Credit Agreement and a Limited Waiver and Second Amendment to Credit Agreement, pursuant to which the lenders waived non-compliance with the leverage ratio covenant and the interest rate on the term loan facility was modified to provide that it will not be less than 10.50% in the event that the London Interbank Offered Rate (LIBOR) is less than 4.00%.

As of June 30, 2008, the most recent measurement date, the Company was not in compliance with the asset coverage and leverage ratio covenants of the Credit Facility and is in default under the Credit Facility. The Company has reclassified its long-term debt as a current liability until such time as the Company is able to cure the default.

The lenders under the Credit Facility could, among other remedies, have declined to make further advances of credit, declared all of the Company s debt immediately due and payable, and foreclosed on the Company s assets. The Company s lenders have not taken any of these actions and in August 2008, the Company, the lenders and the agent entered into a forbearance agreement dated August 13, 2008, pursuant to which the lenders agreed to forbear their right to exercise their remedies under the Credit Facility until September 15, 2008.

On October 16, 2008, the Company, the lenders and the agent entered into a Third Amendment to Credit Agreement and Amended and Restated Forbearance Agreement dated as of September 15, 2008 (the Forbearance Agreement). Pursuant to the Forbearance Agreement, the lenders and the agent agreed to forbear, until December 31, 2008, from exercising their rights and remedies under the Credit Facility arising as a result of the financial covenants defaults.

Under the Forbearance Agreement, the applicable interest rates for borrowings under the Credit Facility have been amended as follows: (i) the base interest rate for base rate loans that are term loans will be the greater of 5.25% or the prime rate; (ii) the margin interest rate applicable to base rate loans that are advances prior to September 20, 2008 will be 0.75% and on or after September 20, 2008 it will be 2.75%, and for base rate loans that are term loans the applicable margin interest rate prior to September 20, 2008 will be 5.25%, on or after September 20, 2008 and prior to November 1, 2008 it will be 7.25%, on or after November 1, 2008 and prior to December 1, 2008 it will be 8.25%, and on or after December 1, 2008 it will be 9.25%; and (iii) the margin interest rate applicable to LIBOR rate loans that are advances prior to September 20, 2008 will be 2.00% and on or after September 20, 2008 it will be 4.00%, and for LIBOR rate loans that are term loans the applicable margin interest rate prior to September 20, 2008 will be 6.50%, on and after September 20, 2008 and prior to November 1, 2008 it will be 8.50%, on and after November 1, 2008 and prior to December 1, 2008 it will be 9.50%, and on and after December 1, 2008 it will be 10.50%.

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The Forbearance Agreement further provides that, during the forbearance period, the Company s obligation to comply with certain financial covenants set forth in the Credit Facility will be suspended, and instead, the Company is obligated during the remainder of 2008 to maintain specified minimum leverage ratios, minimum levels of earnings before interest, taxes, depreciation and amortization, and minimum volumes of oil and natural gas production. In connection with the Forbearance Agreement, the Company agreed to pay a forbearance extension fee to the revolving loan lender of $500,000 on the earlier to occur of December 31, 2008 or upon the occurrence of certain specified termination events. The Company also agreed to pay a forbearance extension fee to the term loan lender of $2,500,000 on December 13, 2012. Provided that the Company complies with certain benchmarks, the lender will forgive $1,250,000 of the $2,500,000 fee. These forbearance fees are in addition to an initial forbearance fee of $150,000 already paid by the Company.

The forbearance expires on December 31, 2008, and the Company may require similar forbearance agreements in future periods. There can be no assurance that the Company will be able to negotiate an amendment to the Credit Facility or additional forbearances, or that such amendment or forbearances will be on terms acceptable to the Company. The Company is considering and actively pursuing other strategic alternatives, which may include a sale of a portion of the Company s assets, a merger or other business combination, or the issuance of equity or other securities, in connection with the repayment of all or a portion of the Company s obligations under the Credit Facility. The Company has engaged Parkman Whaling LLC for the purpose of assisting the Company in pursuing such strategic alternatives. There can be no assurance that the Company will be able to complete any such strategic alternatives on satisfactory terms, or at all. If the Company is unable to amend the Credit Facility or complete any such strategic alternatives, the lenders may exercise their right to accelerate the Company s obligations under the Credit Facility and to foreclose on the Company s assets, and the Company may seek protection under the U.S. Bankruptcy code.

Note 5 Stockholders Equity

Registration rights payments

The purchasers of units consisting of shares of common stock and warrants issued by Foothills in private placement financings in 2006 have registration rights, pursuant to which the Company agreed to register for resale the shares of common stock and the shares of common stock issuable upon exercise of the warrants. In the event that the registration statements are not declared effective by the SEC by specified dates, the Company is required to pay liquidated damages to the purchasers.

The purchasers of 17,142,857 units issued in April 2006 are entitled to liquidated damages in the amount of 1% per month of the purchase price for each unit, payable each month that the registration statement is not declared effective following the mandatory effective date (January 28, 2007). The total amount recorded at September 30, 2008 for these liquidated damages was $322,000. Amounts payable as liquidated damages cease when the shares can be sold under Rule 144 of the Securities Act of 1933, as amended. The Company has determined that liquidated damages ceased on April 6, 2007 as to a minimum of 16,192,613 units, and that liquidated damages ceased on July 6, 2007 as to the remaining units.

The purchasers of an aggregate of 10,093,804 units issued in September 2006 are entitled to liquidated damages in the amount of 1% per month of the purchase price for each unit, payable each month that the registration statement is not declared effective following the applicable mandatory effective dates (March 7, 2007 for 10,000,000 units and March 28, 2007 for the remaining 93,804 units). The total amount recorded at September 30, 2008 for these liquidated damages was $2,271,000. The investors in the September 2006 private placement financing have the right to take the liquidated damages either in cash or in shares of Foothills common stock, at their election. If the Company fails to pay the cash payment to an investor entitled thereto by the due date, the Company will pay interest thereon at a rate of 12% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to such investor, accruing daily from the date such liquidated damages are due until such amounts, plus all such interest thereon, are paid in full. The total amount of liquidated damages will not exceed 10% of the purchase price for the units or $2,271,000.

In October 2006, the Company filed the required registration statement, which became effective in June 2008. As a result, th