

FLOTEK INDUSTRIES INC/CN/  
Form 10-Q  
November 09, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from            to

Commission File Number 1-13270

**FLOTEK INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**90-0023731**  
(I.R.S. Employer  
Identification No.)

**2930 W. Sam Houston Parkway N. #300**

**Houston, TX**  
(Address of principal executive offices)

**77043**  
(Zip Code)

**(713) 849-9911**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 4, 2011, there were 49,450,406 outstanding shares of Flotek Industries, Inc. common stock, \$0.0001 par value.

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## FLOTEK INDUSTRIES, INC.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 25,495	\$ 19,863
Restricted cash	150	150
Accounts receivable, net of allowance for doubtful accounts of \$672 and \$262 at September 30, 2011 and December 31, 2010, respectively	46,456	27,310
Inventories, net	36,315	27,845
Deferred tax assets, net	644	575
Income taxes receivable, net		2,973
Other current assets	2,218	1,041
Total current assets	111,278	79,757
Property, plant and equipment, net	42,624	42,524
Goodwill	26,943	26,943
Deferred tax assets, net	42	117
Other intangible assets, net	30,141	35,466
<b>TOTAL ASSETS</b>	<b>\$ 211,028</b>	<b>\$ 184,807</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 16,360	\$ 13,520
Accrued liabilities	8,646	11,956
Income taxes payable, net	1,214	
Interest payable	699	2,185
Current portion of long-term debt	723	6,454
Deferred tax liabilities, net	42	117
Total current liabilities	27,684	34,232
Convertible notes, net of discount	98,407	98,555
Long-term debt, less current portion	926	28,127
Warrant liability	7,584	26,193
Deferred tax liabilities, net	1,393	1,153
Total liabilities	135,994	188,260
Commitments and contingencies		
Stockholders' equity (deficit):		
Cumulative convertible preferred stock, at accreted value; \$0.0001 par value; 100,000 shares authorized; zero and 11,205 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively; liquidation preference of \$1,000 per share		7,280
Common stock, \$0.0001 par value; 80,000,000 shares authorized; 51,575,359 shares issued and 49,444,592 shares outstanding at September 30, 2011; 36,753,891 shares issued and 35,327,893 shares outstanding at December 31, 2010	5	4

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Additional paid-in capital	163,950	103,408
Accumulated other comprehensive income (loss)	(23)	97
Accumulated deficit	(87,801)	(113,350)
Treasury stock, at cost; 592,156 and 565,199 shares at September 30, 2011 and December 31, 2010, respectively	(1,097)	(892)
Total stockholders' equity (deficit)	75,034	(3,453)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 211,028</b>	<b>\$ 184,807</b>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

## FLOTEK INDUSTRIES, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Revenue</b>	\$ 75,058	\$ 39,982	\$ 183,881	\$ 99,526
<b>Cost of revenue</b>	44,341	23,915	109,775	64,097
Gross margin	30,717	16,067	74,106	35,429
<b>Expenses:</b>				
Selling, general and administrative	13,096	8,539	36,166	31,947
Depreciation and amortization	993	1,230	3,029	3,604
Research and development	523	294	1,616	1,021
Total expenses	14,612	10,063	40,811	36,572
<b>Income (loss) from operations</b>	16,105	6,004	33,295	(1,143)
<b>Other income (expense):</b>				
Change in fair value of warrant liability	7,802	(1,106)	18,609	(2,422)
Interest expense	(3,287)	(5,384)	(12,633)	(14,546)
Other income, net	23	81	43	132
Loss on extinguishment of debt			(3,225)	(995)
Other financing costs				(816)
Total other income (expense)	4,538	(6,409)	2,794	(18,647)
Income (loss) before income taxes	20,643	(405)	36,089	(19,790)
Income tax (expense) benefit	(2,726)	(758)	(5,672)	2,952
<b>Net income (loss)</b>	17,917	(1,163)	30,417	(16,838)
Accrued dividends and accretion of discount on preferred stock		(1,191)	(4,868)	(5,092)
<b>Net income (loss) attributable to common stockholders</b>	\$ 17,917	\$ (2,354)	\$ 25,549	\$ (21,930)
<b>Basic and diluted earnings (loss) per common share:</b>				
Basic earnings (loss) per common share	\$ 0.38	\$ (0.09)	\$ 0.59	\$ (0.90)
Diluted earnings (loss) per common share	\$ 0.35	\$ (0.09)	\$ 0.55	\$ (0.90)
<b>Weighted average common shares used in computing basic and diluted earnings (loss) per common share:</b>				
Weighted average common shares used in computing basic earnings (loss) per common share	47,178	26,690	43,201	24,458
Weighted average common shares used in computing diluted earnings (loss) per common share	54,329	26,690	46,913	24,458

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

## FLOTEK INDUSTRIES, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30,	
	2011	2010
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 30,417	\$ (16,838)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Change in fair value of warrant liability	(18,609)	2,422
Depreciation and amortization	7,532	10,583
Amortization of deferred financing costs	2,529	2,935
Accretion of debt discount	3,963	3,699
Gain on sale of assets	(2,718)	(1,465)
Stock compensation expense	4,810	4,020
Deferred income tax (benefit) provision	727	(1,492)
Reduction in (excess) tax benefit related to share-based awards	(556)	1,716
Loss on extinguishment of debt	3,225	995
Change in current assets and liabilities:		