

FLOTEK INDUSTRIES INC/CN/
Form 10-Q
November 10, 2010
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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

90-0023731
(I.R.S. Employer

incorporation or organization)

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 8, 2010, there were 30,810,792 outstanding shares of Flotek Industries, Inc. common stock, \$0.0001 par value.

Table of Contents

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	3
	<u>Unaudited Condensed Consolidated Balance Sheets at September 30, 2010 and December 31, 2009</u>	3
	<u>Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009</u>	4
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009</u>	5
	<u>Unaudited Condensed Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2010</u>	6
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	38
Item 4.	<u>Controls and Procedures</u>	38

PART II OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	40
Item 1A.	<u>Risk Factors</u>	40
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 3.	<u>Defaults Upon Senior Securities</u>	44
Item 4.	<u>(Removed and Reserved)</u>	44
Item 5.	<u>Other Information</u>	44
Item 6.	<u>Exhibits</u>	45
	<u>SIGNATURES</u>	46

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****FLOTEK INDUSTRIES, INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,059	\$ 6,485
Restricted cash		10
Accounts receivable, net of allowance for doubtful accounts of \$284 and \$948 at September 30, 2010 and December 31 2009, respectively	25,101	14,612
Inventories, net	27,183	27,232
Deferred tax assets, net	975	762
Income tax receivable	2,246	6,607
Other current assets	1,216	871
Total current assets	63,780	56,579
Property and equipment, net	53,935	60,251
Goodwill	26,943	26,943
Other intangible assets, net	37,416	35,128
Total assets	\$ 182,074	\$ 178,901
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 9,508	\$ 8,021
Accrued liabilities	9,548	4,941
Interest payable	728	2,672
Current portion of long-term debt	4,364	8,949
Total current liabilities	24,148	24,583
Convertible notes, net of discount	97,309	95,601
Long-term debt, less current portion	31,396	23,589
Warrant liability	7,151	4,729
Deferred tax liabilities, net	3,640	3,203
Total liabilities	163,644	151,705
Commitments and contingencies		
Stockholders' equity:		
Cumulative convertible preferred stock at accreted value, \$0.0001 par value, 100,000 shares authorized; 13,020 and 16,000 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively; liquidation preference of \$1,000 per share	7,758	6,943

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Common stock, \$0.0001 par value, 80,000,000 shares authorized; shares issued and outstanding: 31,763,792 and 30,810,632, respectively, at September 30, 2010 and 24,168,292 and 23,362,907, respectively, at December 31, 2009

	3	2
Additional paid-in capital	96,574	84,020
Accumulated other comprehensive income	109	118
Accumulated deficit	(85,272)	(63,342)
Treasury stock at cost, 535,811 and 346,270 shares at September 30, 2010 and December 31, 2009, respectively	(742)	(545)
Total stockholders' equity	18,430	27,196
Total liabilities and stockholders' equity	\$ 182,074	\$ 178,901

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**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,	
	2010	2009	2010	2009
Revenue	\$ 39,982	\$ 23,818	\$ 99,526	\$ 87,997
Cost of revenue	23,915	17,415	64,097	65,455
Gross margin	16,067	6,403	35,429	22,542
Expenses:				
Selling, general and administrative	8,539	7,307	31,947	26,649
Depreciation and amortization	1,230	1,217	3,604	3,710
Research and development	294	350	1,021	1,175
Impairment of goodwill				18,500
Total expenses	10,063	8,874	36,572	50,034
Income (loss) from operations	6,004	(2,471)	(1,143)	(27,492)
Other income (expense):				
Loss on extinguishment of debt			(995)	
Interest expense	(5,384)	(4,043)	(14,546)	(11,643)
Other financing costs			(816)	
Change in fair value of warrant liability	(1,106)	(789)	(2,422)	(789)
Other income (expense), net	81	(1)	132	(169)
Total other income (expense)	(6,409)	(4,833)	(18,647)	(12,601)
Loss before income taxes	(405)	(7,304)	(19,790)	(40,093)
Income tax (provision) benefit	(758)	(15,871)	2,952	(4,902)
Net loss	(1,163)	(23,175)	(16,838)	(44,995)
Accrued dividends and accretion of discount on preferred stock	(1,191)	(765)	(5,092)	(765)
Net loss attributable to common stockholders	\$ (2,354)	\$ (23,940)	\$ (21,930)	\$ (45,760)
Basic and diluted loss per common share:				
Basic and diluted loss per common share	\$ (0.09)	\$ (1.22)	\$ (0.90)	\$ (2.34)
Weighted average common shares used in computing basic and diluted loss per common share	26,690	19,645	24,458	19,578

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**FLOTEK INDUSTRIES, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net loss	\$ (16,838)	\$ (44,995)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	10,583	10,543
Amortization of deferred financing costs	2,935	1,148
Accretion of debt discount	3,699	3,554
Impairment of goodwill		18,500
Loss on extinguishment of debt	995	
Change in fair value of warrant liability	2,422	789
Gain on sale of assets	(1,465)	(738)
Stock compensation expense	4,020	1,331
Reduction in tax benefit related to share-based awards	1,716	(8)
Deferred income tax (benefit) provision	(1,492)	10,984
Unrealized loss on interest rate swap		56
Change in current assets and liabilities:		
Restricted cash	10	
Accounts receivable	(10,489)	21,274
Inventories	49	8,821
Income tax receivable	4,361	(5,321)
Other current assets		