

FLOTEK INDUSTRIES INC/CN/
Form 10-Q
August 12, 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 June 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)

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 10-Q

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 August 9, 2010, there were 30,200,251 outstanding shares of Flotek Industries, Inc. common stock, \$0.0001 par value.

Table of Contents

TABLE OF CONTENTS

	<u>PART I - FINANCIAL INFORMATION</u>	3
Item 1.	<u>Financial Statements</u>	3
	<u>Unaudited Condensed Consolidated Balance Sheets at June 30, 2010 and December 31, 2009</u>	3
	<u>Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2010 and 2009</u>	4
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009</u>	5
	<u>Unaudited Condensed Consolidated Statement of Stockholders' Equity for the six months ended June 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>	20
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	30
Item 4T.	<u>Controls and Procedures</u>	30
	<u>PART II - OTHER INFORMATION</u>	31
Item 1.	<u>Legal Proceedings</u>	31
Item 1A.	<u>Risk Factors</u>	32
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
Item 3.	<u>Defaults Upon Senior Securities</u>	33
Item 4.	<u>Reserved</u>	33
Item 5.	<u>Other Information</u>	33
Item 6.	<u>Exhibits</u>	34
	<u>SIGNATURES</u>	35

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

(in thousands, except share data)

	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,265	\$ 6,485
Restricted cash		10
Accounts receivable, net of allowance for doubtful accounts of \$745 and \$948 at June 30, 2010 and December 31 2009, respectively	19,976	14,612
Inventories, net	26,812	27,232
Deferred tax assets	431	762
Income tax receivable	9,710	6,607
Other current assets	1,391	871
Total current assets	63,585	56,579
Property and equipment, net	55,579	60,251
Goodwill	26,943	26,943
Other intangible assets, net	39,484	35,128
Deferred tax assets, less current portion	157	
Total assets	\$ 185,748	\$ 178,901

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:		
Accounts payable	\$ 8,243	\$ 8,021
Accrued liabilities	10,027	4,941
Interest payable	1,981	2,672
Current portion of long-term debt	7,626	8,949
Total current liabilities	27,877	24,583
Convertible notes, net of discount	96,083	95,601
Long-term debt, less current portion	33,002	23,589
Warrant liability	6,045	4,729
Deferred tax liabilities, less current portion	3,548	3,203
Total liabilities	166,555	151,705

Commitments and contingencies

Stockholders equity:

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 10-Q

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 June 30, 2010 and December 31, 2009, respectively	7,056	6,943
Common stock, \$0.0001 par value, 80,000,000 shares authorized; shares issued and outstanding: 30,845,011 and 30,165,533, respectively, at June 30, 2010 and 24,168,292 and 23,362,907, respectively, at December 31, 2009	3	2
Additional paid-in capital	95,574	84,020
Accumulated other comprehensive income	109	118
Accumulated deficit	(82,918)	(63,342)
Treasury stock at cost, 438,783 and 346,270 shares at June 30, 2010 and December 31, 2009, respectively	(631)	(545)
Total stockholders' equity	19,193	27,196
Total liabilities and stockholders' equity	\$ 185,748	\$ 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue	\$ 31,174	\$ 23,503	\$ 59,544	\$ 64,179
Cost of revenue	19,823	19,855	40,181	48,040
Gross margin	11,351	3,648	19,363	16,139
Expenses:				
Selling, general and administrative	13,218	9,053	23,408	19,342
Depreciation and amortization	1,182	1,249	2,376	2,493
Research and development	364	396	726	825
Impairment of goodwill		18,500		18,500
Total expenses	14,764	29,198	26,510	41,160
Loss from operations	(3,413)	(25,550)	(7,147)	(25,021)
Other income (expense):				
Loss on extinguishment of debt			(995)	
Interest expense	(4,945)	(3,914)	(9,163)	(7,600)
Other financing costs			(816)	
Change in fair value of warrant liability	497		(1,316)	
Other income (expense), net	(10)	(23)	52	(168)
Total other income (expense)	(4,458)	(3,937)	(12,238)	(7,768)
Loss before income taxes	(7,871)	(29,487)	(19,385)	(32,789)
Income tax benefit	1,709	9,670	3,710	10,969
Net loss	(6,162)	(19,817)	(15,675)	(21,820)
Accrued dividends and accretion of discount on preferred stock	(1,273)		(3,901)	
Net loss attributable to common stockholders	\$ (7,435)	\$ (19,817)	\$ (19,576)	\$ (21,820)
Basic and diluted loss per common share:				
Basic and diluted loss per common share	\$ (0.28)	\$ (1.01)	\$ (0.84)	\$ (1.12)
Weighted average common shares used in computing basic and diluted loss per common share	26,445	19,676	23,323	19,544

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net loss	\$ (15,675)	\$ (21,820)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,010	6,982
Amortization of deferred financing costs	1,516	721
Accretion of debt discount	2,451	2,330
Impairment of goodwill		18,500
Loss on extinguishment of debt	995	
Change in fair value of warrant liability	1,316	
Gain on sale of assets	(132)	(416)
Stock compensation expense	3,839	662
Reduction in (excess) tax benefit of share-based awards	1,685	(8)
Deferred income tax benefit	(1,166)	(4,481)
Unrealized loss on interest rate swap		56
Change in current assets and liabilities:		
Restricted cash	10	
Accounts receivable	(5,364)	22,141
Inventories	420	6,131
Income tax receivable	(3,103)	
Other current assets	(520)	