

FLOTEK INDUSTRIES INC/CN/
Form 10QSB
August 17, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

For the quarter ended June 30, 2004

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

Commission File Number 1-13270

FLOTEK INDUSTRIES, INC.

Incorporated pursuant to the Laws of the State of Delaware

Internal Revenue Service Employer Identification No. 90-0023731

7030 Empire Central Drive, Houston, Texas 77040

(713) 849-9911

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 and 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

The number of shares of the Registrant's common stock outstanding on August 16, 2004 was 6,666,003.

Transitional Small Business Disclosure Format:

Yes No

FLOTEK INDUSTRIES, INC.

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<u>Certification of Periodic Report by Chief Executive Officer</u>	Exhibit 32.1
<u>Certification of Periodic Report by Chief Financial Officer</u>	Exhibit 32.2

PART I FINANCIAL INFORMATION

Item 1 Consolidated Financial Statements

FLOTEK INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

	For the Period Ended	
	June 30, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ --	\$ --
Accounts receivable, less reserve of \$16,476 and \$31,102 as of June 30, 2004 and December 31, 2003, respectively	2,493,685	1,977,926
Inventories	2,234,774	1,905,070

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	For the Period Ended	
Other current assets	62,426	113,326
Total current assets	4,790,885	3,996,332
Property, plant and equipment, net	2,378,063	2,644,860
Goodwill, net	7,291,084	7,145,713
Patents and other intangible assets, net	155,152	183,443
Total assets	\$ 14,615,184	\$ 13,970,338

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 3,103,491	\$ 2,961,805
Accrued liabilities	817,753	623,006
Short-term notes payable	3,421,476	3,482,325
Current portion of long-term debt	1,011,242	1,596,221
Amounts due to related parties	533,491	581,151
Total current liabilities	8,887,453	9,244,508
Long-term debt	2,385,754	2,165,726
Stockholders' equity:		
Preferred stock, \$.0001 par value, 100,000 shares authorized, no shares issued	--	--
Common stock, \$.0001 par value, 20,000,000 shares authorized, 6,666,003 and 6,521,670 shares issued and outstanding as of June 30, 2004 and December 31, 2003, respectively	666	652
Additional paid-in capital	17,079,042	16,973,056
Accumulated deficit	(13,737,731)	(14,413,604)
Total stockholders' equity	3,341,977	2,560,104
Total liabilities and stockholders' equity	\$ 14,615,184	\$ 13,970,338

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

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FLOTEK INDUSTRIES, INC.

**CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)**

	Three Months Ended		Six Months Ended	
	2004	2003	2004	2003
Revenues	\$ 4,810,976	\$ 3,617,869	\$ 9,607,367	\$ 6,946,314

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	Three Months Ended June 30,		Six Months Ended June 30,	
Cost of sales	2,660,573	2,283,134	5,488,404	4,295,554
Gross margin	2,150,403	1,334,735	4,118,972	2,650,760
Expenses:				
Selling, general and administrative	1,393,565	1,279,388	2,738,216	2,220,977
Depreciation and amortization	182,848	152,855	364,274	303,704
Research and development	--	23,628	--	40,687
Total expenses	1,576,413	1,455,871	3,102,490	2,565,368
Operating income (loss)	573,900	(121,136)	1,016,482	85,392
Other income (expense):				
Interest expense	(166,348)	(170,297)	(344,063)	(300,906)
Other income, net	34,241	346	3,454	1,776
Total other income (expense)	(132,107)	(169,951)	(340,609)	(299,130)
Income (loss) from continuing operations	441,883	(291,087)	675,873	(213,738)
Loss from discontinued operations	--	(410,689)	--	(486,974)
Loss on disposal of discontinued operations	--	(1,157,835)	--	1,157,835)
Net income (loss)	\$ 441,883	\$ (1,859,611)	\$ 675,873	\$ (1,858,547)
Basic and diluted income (loss) per common share:				
Income (loss) from continuing operations	0.07	(0.05)	0.10	(0.04)
Loss from discontinued operations	--	(0.07)	--	(0.08)
Loss on disposal of discontinued operations	--	(0.21)	--	(0.21)
Basic net income (loss) per common share	\$ 0.07	\$ (0.33)	\$ 0.10	\$ (0.33)
Diluted net income (loss) per common share	\$ 0.06	\$ (0.33)	\$ 0.10	\$ (0.33)
Weighted average number of shares outstanding	6,662,939	5,635,223	6,644,363	5,578,760
Weighted average common and common equivalent shares outstanding	6,918,077	5,635,223	6,881,946	5,578,760

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

FLOTEK INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulatd Deficit	Total
Balance at December 31, 2003	6,521,670	\$ 652	\$ 16,973,056	\$ (14,413,604)	\$ 2,560,104
Stock issued for cash	143,333	14	105,986	--	106,000
Net income	--	--	--	675,873	675,873
Balance at June 30, 2004	6,665,003	\$ 666	\$ 17,079,042	\$ (13,737,731)	\$ 3,341,997

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

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FLOTEK INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months Ended June 30,	
	2004	2003
Cash flows from operating activities:		
Income (loss) from continuing operations	\$ 675,873	\$ (213,738)
Adjustments to reconcile net income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	364,274	303,704
Stock Grant	--	75,000
Change in assets and liabilities:		
Accounts receivable, net	(515,759)	(698,847)
Inventories	(329,704)	39,474
Deposits and other	50,899	1,859
Accounts payable and accrued liabilities	211,224	679,711
Net cash provided by continuing operations	456,807	187,163
Net cash used in discontinued operations	--	(748,490)
Net cash provided by (used in) operating activities	456,807	(561,327)
Cash flows from investing activities:		
Capital expenditures	(69,186)	(274,323)
Acquisition - additional goodwill	(20,161)	--
Net cash used in investing activities from continuing operations	(89,347)	(274,323)
Net cash used in investing activities from discontinued operations	--	--
Net cash used in investing activities	(89,347)	(274,323)

For the Six Months Ended
June 30,

Cash flows from financing activities:		
Issuance of stock and options exercised for cash	106,000	--
Proceeds from borrowings	--	319,993
Repayments of indebtedness	(425,800)	(225,602)
Repayments to related parties	(47,660)	--
Proceeds from related parties	--	655,322
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Net cash provided by (used in) financing activities from continuing operations	(367,460)	849,713
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Net cash used in financing activities from discontinued operations	--	(14,063)
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Net cash provided by (used in) financing activities	(367,460)	835,650
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	--	--
Cash and cash equivalents at beginning of period	--	--
	<hr/>	<hr/>
Cash and cash equivalents at end of period	\$ --	\$ --
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Cash paid for interest	\$ 156,365	\$ 130,605
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Goodwill additions through accrued acquisition costs	\$ 125,210	\$ --
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The accompanying notes are an integral part of these consolidated financial statements.

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FLOTEK INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**(UNAUDITED)****Note 1 Basis of Presentation**

The consolidated financial statements included herein are unaudited and have been prepared by Flotek Industries, Inc. (the Company). These financial statements reflect all adjustments, which the Company considers necessary for the fair presentation of such financial statements for the interim periods presented and the Company believes that the disclosures included herein are adequate to make the interim information presented not misleading. Certain reclassifications of prior year data have been made to conform to 2004 classifications. These financial statements, including selected notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003. The results of operations for interim periods are not necessarily indicative of the results expected for the full year.

Note 2 Discontinued Operations

During the third quarter of 2003, The Equipment Specialties (ESI) reporting unit, which designed, manufactured and rebuilt specialized cementing and stimulation equipment, was discontinued and the assets were sold to Special Equipment Manufacturing, Inc. (SEM). ESI assigned its remaining lease obligation of \$1.3 million with Oklahoma Facilities, LLC (Facilities) to SEM, thus eliminating any future liability for this capital lease obligation. To effect this assignment, the Company agreed to pay Facilities an additional \$91,000 of rent for the 17 month rental period beginning March 1, 2002 and ending July 31, 2003 in six equal installments beginning November 15, 2003. As of June 30, 2004,

Facilities is owed \$61,700 in payments for this obligation, which is recorded in accrued liabilities.

The Equipment Specialties Division has been accounted for as a discontinued operation and therefore, the results of its operations and its cash flows have been removed from the Company's results of continuing operations for all periods presented in this document.

Note 3 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 average cost method. The Company maintains a reserve for impaired or obsolete inventory, which is reviewed for adequacy on a periodic basis. The components of inventories at June 30, 2004 and December 31, 2003 were as follows:

	June 30, 2004	December 31, 2003
Raw materials	\$ 668,594	\$ 363,409
Finished goods	2,142,690	2,033,015
Total inventory	2,811,284	2,396,424
Inventory obsolescence reserve	(576,510)	(491,354)
Inventories, net	\$ 2,234,774	\$ 1,905,070

Note 4 Property, Plant and Equipment

The Company evaluates the impairment of its long-lived assets in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). SFAS No. 144 requires long-lived assets to be reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment is recognized in the event that the net book value of an asset exceeds the sum of the future undiscounted cash flows attributable to such asset or the business to which such asset relates and the net book value exceeds fair value. As of June 30, 2004, the Company did not recognize any impairment associated with its long-lived assets.

At June 30, 2004 and December 31, 2003, property, plant and equipment were comprised of the following:

	June 30, 2004	December 31, 2003
Land	\$ 68,000	