

FLOTEK INDUSTRIES INC/CN/
Form 10-Q
May 11, 2011
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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 March 31, 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)

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 May 6, 2011, there were 46,265,275 outstanding shares of Flotek Industries, Inc. common stock, \$0.0001 par value.

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

(in thousands, except share data)

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,003	\$ 19,863
Restricted cash	150	150
Accounts receivable, net of allowance for doubtful accounts of \$274 and \$262 at March 31, 2011 and December 31, 2010, respectively	31,024	27,310
Inventories, net	30,650	27,845
Deferred tax assets, net	575	575
Income tax receivable	2,263	2,973
Other current assets	976	1,041
Total current assets	84,641	79,757
Property and equipment, net	41,651	42,524
Goodwill	26,943	26,943
Deferred tax asset, net	67	117
Other intangible assets, net	34,318	35,466
Total assets	\$ 187,620	\$ 184,807
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 12,690	\$ 13,520
Accrued liabilities	6,429	11,956
Interest payable	728	2,185
Current portion of long-term debt	9,276	6,454
Deferred tax liability, net	67	117
Total current liabilities	29,190	34,232
Convertible notes, net of discount	99,849	98,555
Long-term debt, less current portion	23,599	28,127
Warrant liability	18,639	26,193
Deferred tax liabilities, net	1,255	1,153
Total liabilities	172,532	188,260
Commitments and contingencies		
Stockholders' equity (deficit):		

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Cumulative convertible preferred stock; at accreted value; \$0.0001 par value; 100,000 shares authorized; zero and 11,205 shares issued and outstanding at March 31, 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; 45,749,193 shares issued and 44,366,513 shares outstanding at March 31, 2011; 36,753,891 shares issued and 35,327,893 shares outstanding at December 31, 2010	5	4
Additional paid-in capital	123,771	103,408
Accumulated other comprehensive income	96	97
Accumulated deficit	(107,844)	(113,350)
Treasury stock, at cost; 572,019 and 565,199 shares at March 31, 2011 and December 31, 2010, respectively	(940)	(892)
Total stockholders equity (deficit)	15,088	(3,453)
Total liabilities and stockholders equity (deficit)	\$ 187,620	\$ 184,807

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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(in thousands, except per share data)

	Three Months Ended March 31,	
	2011	2010
Revenue	\$ 52,905	\$ 28,370
Cost of revenue	31,760	20,358
Gross margin	21,145	8,012
Expenses:		
Selling, general and administrative	10,341	10,191
Depreciation and amortization	1,021	1,193
Research and development	499	362
Total expenses	11,861	11,746
Income (loss) from operations	9,284	(3,734)
Other income (expense):		
Change in fair value of warrant liability	7,554	(1,813)
Interest expense	(4,857)	(4,218)
Other income, net	17	62
Loss on extinguishment of debt		(995)
Other financing costs		(816)
Total other income (expense)	2,714	(7,780)
Income (loss) before income taxes	11,998	(11,514)
Income tax (expense) benefit	(1,624)	2,001
Net income (loss)	10,374	(9,513)
Accrued dividends and accretion of discount on preferred stock	(4,868)	(2,628)
Net income (loss) attributable to common stockholders	\$ 5,506	\$ (12,141)
Basic and diluted earnings (loss) per common share:		
Basic earnings (loss) per common share	\$ 0.15	\$ (0.60)
Diluted earnings (loss) per common share	\$ 0.13	\$ (0.60)
Weighted average common shares used in computing basic and diluted earnings (loss) per common share:		
Weighted average common shares used in computing basic earnings (loss) per common share	37,571	20,167
Weighted average common shares used in computing diluted earnings (loss) per common share	43,548	20,167

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(in thousands)

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$ 10,374	\$ (9,513)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Change in fair value of warrant liability	(7,554)	1,813
Depreciation and amortization	2,468	3,498
Amortization of deferred financing costs	1,034	485
Accretion of debt discount	1,295	1,295
Gain on sale of assets	(705)	(108)
Stock compensation expense	423	375
Deferred income tax provision	159	302
Reduction in (excess) tax benefit related to share-based awards	(57)	373
Loss on extinguishment of debt		995
Change in current assets and liabilities:		
Accounts receivable	(3,714)	(3,330)
Inventories	(2,805)	49
Accrued liabilities	(2,622)	1,405
Interest payable	(1,457)	(2,146)
Accounts payable	(830)	2,991
Other current assets	65	(1,454)
Income tax receivable, net	1,115	(2,595)
Restricted cash		10
Net cash used in operating activities	(2,811)	(5,555)
Cash flows from investing activities:		
Capital expenditures	(1,241)	(975)
Proceeds from sale of assets	1,043	580
Purchase of patents		(4)
Net cash used in investing activities	(198)	(399)
Cash flows from financing activities:		
Proceeds from exercise of warrants	4,020	
Debt issuance costs	(1,000)	(1,742)
Repayments of indebtedness	(886)	(31,951)
(Reduction in) excess tax benefit related to share-based awards	57	(373)
Purchase of treasury stock	(48)	
Proceeds from exercise of stock options	7	
Proceeds from borrowings		40,000
Net cash provided by financing activities	2,150	