

FLOTEK INDUSTRIES INC/CN/
Form 10QSB
August 19, 2003

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 quarterly period ended June 30, 2003

**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 19, 2003 was 6,105,003.

Transitional Small Business Disclosure Format:

Yes No

FLOTEK INDUSTRIES, INC.

TABLE OF CONTENTS

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements (Unaudited)	
<u>Consolidated Balance Sheets</u>	1
<u>Consolidated Statements of Operations</u>	2
<u>Consolidated Statement of Changes in Stockholders' Equity</u>	3
<u>Consolidated Statements of Cash Flows</u>	4
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 4. <u>Controls and Procedures</u>	24
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	26
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	26
Item 6. <u>Exhibits and Reports on Form 8-K</u>	27
<u>SIGNATURES</u>	28

PART I FINANCIAL INFORMATION

Item 1 Consolidated Financial Statements

FLOTEK INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	<u>June 30, 2003</u>	<u>December 31, 2002</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ --	\$ --
Accounts receivable, less reserves of \$915,855 and \$900,067 as of June 30, 2003 and December 31, 2002, respectively	2,733,228	2,034,381
Inventories	1,474,557	1,553,230
Other current assets	196,196	198,055
Assets held for sale from discontinued operations	1,402,470	1,958,610
Total current assets	5,806,451	5,744,276
Property, plant and equipment, net	2,714,984	2,692,059
Goodwill, net	12,266,346	12,266,346
Patents and other intangible assets, net	241,801	237,421
Total assets	\$ 21,029,582	\$ 20,940,102

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2003	December 31, 2002
Notes payable	\$ 3,648,931	\$ 3,532,924
Current liabilities of long-term debt	1,170,675	977,695
Accounts payable	3,245,122	2,464,499
Accrued liabilities	174,899	91,971
Amounts due to related parties	736,214	100,892
Liabilities associated with discontinued operations	1,490,751	1,388,261
Total current liabilities	10,466,592	8,556,242
Long-term debt	2,902,326	3,039,649
Stockholders' equity:		
Preferred stock, \$.0001 par value, 100,000 shares authorized, no shares issued	--	--
Common stock, \$.0001 par value, 20,000,000 shares authorized, 5,813,336 and 5,521,670 shares issued and outstanding as of June 30, 2003 and December 31, 2002, respectively	581	552
Additional paid-in capital	16,548,127	16,373,156
Accumulated deficit	(8,888,044)	(7,029,497)
Total stockholders' equity	7,660,664	9,344,211
Total liabilities and stockholders' equity	\$ 21,029,582	\$ 20,940,102

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

1

FLOTEK INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2003
Revenues	\$ 3,617,869	\$ 2,877,740	\$ 6,946,314	\$ 5,909,395
Cost of sales	2,283,134	1,781,540	4,295,554	3,487,013
Gross margin	1,334,735	1,096,200	2,650,760	2,422,382
Expenses:				
Selling, general and administrative	1,279,388	1,201,318	2,220,977	2,284,293
Depreciation and amortization	152,855	123,720	303,704	228,872
Research and development	23,628	43,229	40,687	65,428
Total expenses	1,455,871	1,368,267	2,565,368	2,578,593

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Operating income (loss)	(121,136)	(272,067)	85,392	(156,211)
Other income (expense):				
Interest expense	(170,297)	(145,991)	(300,906)	(228,745)
Other, income (expense), net	347	(9,779)	1,776	170
Total other income (expense)	(169,951)	(149,301)	(299,130)	(228,575)
Loss from continuing operations	(291,087)	(427,837)	(213,738)	(384,786)
Loss from discontinued operations	(410,689)	(752,786)	(486,974)	(1,062,591)
Loss on disposal of discontinued operations	(1,157,835)	--	(1,157,835)	--
Cumulative effect of change in accounting principal	--	--	--	(452,745)
Net loss	\$ (1,859,611)	\$ (1,180,623)	\$ (1,858,547)	\$ (1,900,122)
Basic and diluted loss per common share:				
Loss from continuing operations	(0.05)	(0.09)	(0.04)	(0.08)
Loss from discontinued operations	(0.07)	(0.15)	(0.09)	(0.22)
Loss on disposal of discontinued operations	(0.21)	--	(0.21)	--
Cumulative effect of change in accounting principle	--	--	--	(0.09)
Basic and diluted net loss per common share	\$ (0.33)	\$ (0.24)	\$ (0.33)	\$ (0.39)
Weighted average number of shares outstanding	5,635,223	4,910,812	5,578,760	4,901,608

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

FLOTEK INDUSTRIES, INC.

**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
(UNAUDITED)**

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at December 31, 2002	5,521,670	552	\$ 16,373,156	\$ (7,029,497)	\$ 9,344,211
Common Stock issued for					
Stock Grant	125,000	12	74,988	--	75,000
Common Stock issued for Cash	166,666	17	99,983	--	100,000
Net loss	--	--	--	(1,858,547)	(1,858,547)
Balance at June 30, 2003	5,813,336	581	\$ 16,548,127	\$ (8,888,044)	\$ 7,660,664

Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
------------------------	------------------------	-------------------------------	------------------------	-------

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

3

FLOTEK INDUSTRIES, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

	For the Six Months Ended June 30,	
	2003	2002
Cash flows from operating activities:		
Loss from continuing operations	\$ (213,738)	\$ (384,786)
Adjustments to reconcile loss from continuing operations to net cash used in:		
Change in accounting principle	--	452,745
Depreciation and amortization	303,704	228,872
Stock grant	75,000	--
Increase (decrease) in:		
Accounts receivable	(698,847)	(1,399,999)
Inventories and work in progress	39,474	214,705
Other current assets	1,859	(170,050)
Deposits and other	--	44,189
Accounts payable and accrued expenses	679,711	41,893
Net cash provided by (used in) continuing operations	209,099	(972,431)
Net cash provided by (used in) discontinued operations	(748,490)	(648,497)
Net cash used in operating activities	(539,391)	(1,620,928)
Cash flows from investing activities:		
Acquisition of subsidiaries, net	--	(122,250)
Capital expenditures	(274,323)	(1,016,452)
Net cash used in investing activities from continuing operations	(296,259)	(1,138,702)
Net cash used in investing activities from discontinued operations	--	(180,776)
Net cash used in investing activities	(296,259)	(1,319,478)
Cash flows from financing activities:		
Issuance of stock for cash	100,000	--
Proceeds from borrowings	319,993	2,508,436
Repayments of indebtedness	(225,602)	(535,934)
Proceeds from related parties	655,322	164,755

	For the Six Months Ended June 30,	
Net cash provided by (used in) financing activities from continuing operations	849,713	2,137,257
Net cash provided by financing activities from discontinued operations	(14,063)	572,286
	<u>835,650</u>	<u>2,709,543</u>
Net decrease in cash and cash equivalents	--	(230,863)
Cash and cash equivalents - beginning of period	--	240,438
	<u>\$ --</u>	<u>\$ 9,575</u>

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

4

FLOTEK INDUSTRIES, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(UNAUDITED)**

	Six Months Ended June 30,	
	2003	2002
Supplemental disclosures of cash flow information:		
Acquisition of subsidiaries:		
Assets acquired:		
Patents and other intangibles	\$ --	\$ 104,466
Goodwill	--	207,250
	<u>--</u>	<u>311,716</u>
Common stock issued	--	(189,466)
Net cash paid to sellers and transaction costs	\$ --	\$ 122,250
	<u>--</u>	<u>122,250</u>
Cash paid for interest		