

FLOTEK INDUSTRIES INC/CN/
Form 10-Q/A
May 21, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended September 30, 2009

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.

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(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 Pkwy N., Houston, Texas
(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 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

There were 30,091,151 shares of the issuer's common stock, \$.0001 par value, outstanding as of May 12, 2010.

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EXPLANATORY NOTE

Flotek Industries, Inc. (the Company) is filing this amendment to its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, which was originally filed with the Securities and Exchange Commission on November 16, 2009 (the Original Filing), to include restated financial statements as described in Note 1 to the consolidated condensed financial statements. The financial statements are being restated due to adoption of FASB ASC 815-40-15-5 (ASC 815-40, formerly EITF 07-5), Determining Whether an Instrument (Or Embedded Feature) Is Indexed to an Entity's Own Stock, which became effective January 1, 2009 and indicates that the anti-dilution price protection features in the Company's outstanding warrants require accounting for the fair value of the warrants as a liability. The restated financial statements account for the reclassification of the Company's warrants from stockholders' equity to a warrant liability, and for changes in the fair value of the warrant liability in the statement of operations.

The Company's Original Filing reflected warrants to purchase 10,480,000 shares of the Company's common stock as stockholders' equity as of September 30, 2009. In this amendment, such warrants have been reclassified as liabilities in accordance with ASC 815-40. The resulting impact of this accounting change as of and for the quarterly period ended September 30, 2009 is an increase in the Company's net loss of \$0.8 million, a decrease in the Company's additional paid-in capital of \$5.2 million, an increase in the Company's accumulated deficit of \$0.8 million, and an increase in warrant liability of \$6.0 million.

The revisions relate to non-operating and non-cash items as of and for the quarterly period ended September 30, 2009. ASC 815-40 did not impact the Company's financial statements for periods ending June 30, 2009 or earlier. The restatement does not result in a change in the Company's previously reported revenues or total cash and cash equivalents shown in its financial statements for the quarterly period ended September 30, 2009.

The items of the Original Filing which are amended and restated by this Quarterly Report on Form 10-Q/A as a result of the foregoing are:

Part I Item 1 Financial Statements

Part I Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Part II Item 6 Exhibits

For the convenience of the reader, this Quarterly Report on Form 10-Q/A sets forth the Original Filing in its entirety. Other than as described above, none of the other disclosures in the Original Filing have been amended or updated. Among other things, forward looking statements made in the Original Filing have not been revised to reflect events that occurred or facts that became known to the Company after the filing of the Original Filing, and such forward-looking statements should be read in their historical context. Accordingly, this Quarterly Report on Form 10-Q/A should be read in conjunction with the Company's filings with the Securities and Exchange Commission subsequent to the Original Filing.

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

(in millions, except share data)

	September 30, 2009 (Restated) (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 0.6	\$ 0.2
Accounts receivable, net of allowance for doubtful accounts of \$0.7 million and \$1.5 million, respectively	15.9	37.2
Inventories, net	29.2	38.0
Deferred tax asset, current		0.9
Income tax receivable	4.4	
Other current assets	1.4	1.3
Total current assets	51.5	77.6
Property, plant and equipment, net	62.4	66.8
Goodwill	27.0	45.5
Intangible assets, net	35.8	38.0
Deferred tax assets, less current portion		6.6
TOTAL ASSETS	\$ 176.7	\$ 234.5
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 7.9	\$ 22.7
Accrued liabilities	6.1	13.5
Accrued interest payable	1.2	2.4
Income taxes payable		0.9
Current portion of long-term debt	26.0	9.0
Total current liabilities	41.2	48.5
Long-term debt, less current portion	0.3	29.5
Convertible senior notes, net of discount of \$20.6 million and \$24.2 million at September 30, 2009 and December 31, 2008, respectively	94.4	90.8
Warrant liability	6.0	
Deferred tax liability, less current portion	2.7	
Total liabilities	144.6	168.8
Commitments and contingencies		
Stockholders' equity:		

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Cumulative convertible preferred stock, \$0.0001 par value, 100,000 shares authorized, 16,000 issued and outstanding at September 30, 2009, net of discount	6.1	
Common stock, \$0.0001 par value; 40,000,000 shares authorized; September 30, 2009 shares issued: 23,697,430; outstanding: 22,914,532; December 31, 2008 shares issued: 23,174,286; outstanding: 22,782,091		
Additional paid-in capital	82.8	76.8
Accumulated other comprehensive income	0.1	0.1
Accumulated deficit	(56.4)	(10.7)
Treasury stock: 259,716 shares and 158,697 shares at September 30, 2009 and December 31, 2008, respectively	(0.5)	(0.5)
Total stockholders' equity	32.1	65.7
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 176.7	\$ 234.5

See notes to consolidated condensed financial statements.

Table of Contents**FLOTEK INDUSTRIES, INC.****CONSOLIDATED CONDENSED STATEMENTS OF INCOME (LOSS)****(UNAUDITED)****(in millions, except share and per share data)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Restated)		(Restated)	
Revenue	\$ 23.8	\$ 62.8	\$ 88.0	\$ 166.1
Cost of revenue	17.5	36.2	65.5	95.9
Expenses:				
Impairment of goodwill			18.5	
Selling, general and administrative	7.2	12.4	26.6	34.3
Depreciation and amortization	1.2	1.6	3.7	4.2
Research and development	0.4	0.4	1.2	1.3
Total expenses	8.8	14.4	50.0	39.8
Income (loss) from operations	(2.5)	12.2	(27.5)	30.4
Other expense:				
Interest expense	(4.1)	(3.9)	(11.6)	(9.7)
Change in fair value of warrant liability	(0.8)		(0.8)	
Investment income and other, net	0.1		(0.1)	
Total other expense	(4.8)	(3.9)	(12.5)	(9.7)
Income (loss) before income taxes	(7.3)	8.3	(40.0)	20.7
Provision for income taxes	(15.8)	(3.2)	(4.9)	(7.9)
Net income (loss)	(23.1)	5.1	(44.9)	12.8
Accrued dividends and accretion of discount on preferred stock	(0.8)		(0.8)	
Net income (loss) allocable to common stockholders	\$ (23.9)	\$ 5.1	\$ (45.7)	\$ 12.8
Earnings (loss) per share allocable to common stockholders:				
Basic	\$ (1.22)	\$ 0.27	\$ (2.33)	\$ 0.68
Diluted	\$ (1.22)	\$ 0.27	\$ (2.33)	\$ 0.66
Weighted average common shares used in computing basic earnings per common share (in thousands)	19,645	18,972	19,578	18,832
Incremental common shares from stock options, warrants and restricted stock (in thousands)		429		514
Weighted average common shares used in computing diluted earnings per common share (in thousands)	19,645	19,401	19,578	19,346

See notes to consolidated condensed financial statements.

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	Nine Months Ended September 30,	
	2009	2008
	(Restated)	
Cash flows from operating activities:		
Net income (loss)	\$ (44.9)	\$ 12.8
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	10.5	9.4
Amortization of deferred financing costs	1.1	0.7
Accretion of debt discount	3.6	2.5
Accretion of discount on preferred stock	0.5	
Change in fair value of warrant liability	0.8	
Impairment of goodwill	18.5	
Stock compensation expense	1.3	2.1
Deferred tax expense	11.0	
Changes in working capital and other	(0.3)	(4.1)
Net cash provided by operating activities	2.1	23.4
Cash flows from investing activities:		
Acquisitions, net of cash acquired		(98.0)
Proceeds from sale of assets	2.1	1.1
Capital expenditures	(5.6)	(16.6)
Net cash used in investing activities	(3.5)	(113.5)