

FLOTEK INDUSTRIES INC/CN/  
Form 10-Q  
November 02, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 2016

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 90-0023731  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

10603 W. Sam Houston Parkway N., Suite 300 77064  
Houston, TX  
(Address of principal executive offices) (Zip Code)

(713) 849-9911  
(Registrant's telephone number, including area code)

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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

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 October 28, 2016, there were 56,703,963 outstanding shares of Flotek Industries, Inc. common stock, \$0.0001 par value.

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TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015</u>	<u>5</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015</u>	<u>6</u>
<u>Unaudited Condensed Consolidated Statement of Equity for the nine months ended September 30, 2016</u>	<u>7</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>36</u>
<u>Item 4. Controls and Procedures</u>	<u>37</u>

PART II—OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	<u>38</u>
<u>Item 1A. Risk Factors</u>	<u>38</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>39</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>39</u>
<u>Item 5. Other Information</u>	<u>39</u>
<u>Item 6. Exhibits</u>	<u>39</u>
<u>SIGNATURES</u>	<u>40</u>

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## FLOTEK INDUSTRIES, INC.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,474	\$ 2,208
Accounts receivable, net of allowance for doubtful accounts of \$1,003 and \$1,189 at September 30, 2016 and December 31, 2015, respectively	53,652	49,197
Inventories	73,986	85,492
Income taxes receivable	18,192	4,700
Deferred tax assets, net	2,352	2,649
Other current assets	9,099	7,496
Total current assets	160,755	151,742
Property and equipment, net	89,154	91,913
Goodwill	73,682	72,820
Deferred tax assets, net	—	17,229
Other intangible assets, net	58,949	69,386
<b>TOTAL ASSETS</b>	<b>\$ 382,540</b>	<b>\$ 403,090</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 26,072	\$ 19,444
Accrued liabilities	11,826	12,894
Income taxes payable	—	2,263
Interest payable	156	111
Current portion of long-term debt	34,562	32,291
Total current liabilities	72,616	67,003
Long-term debt, less current portion	8,000	18,255
Deferred tax liabilities, net	1,205	23,823
Total liabilities	81,821	109,081
Commitments and contingencies		
Equity:		
Cumulative convertible preferred stock, \$0.0001 par value, 100,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.0001 par value, 80,000,000 shares authorized; 59,604,669 shares issued and 56,698,874 shares outstanding at September 30, 2016; 56,220,214 shares issued and 53,536,101 shares outstanding at December 31, 2015	6	6
Additional paid-in capital	316,091	273,451
Accumulated other comprehensive income (loss)	(981	) (1,237 )
Retained earnings	4,089	39,300
Treasury stock, at cost; 1,893,612 and 1,784,897 shares at September 30, 2016 and December 31, 2015, respectively	(18,844	) (17,869 )

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Flotek Industries, Inc. stockholders' equity	300,361	293,651
Noncontrolling interests	358	358
Total equity	300,719	294,009
TOTAL LIABILITIES AND EQUITY	\$ 382,540	\$ 403,090

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

3

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FLOTEK INDUSTRIES, INC.  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue	\$73,679	\$87,942	\$218,287	\$257,346
Cost of revenue	48,313	56,715	144,071	170,340
Gross profit	25,366	31,227	74,216	87,006
Expenses:				
Selling, general and administrative	24,424	23,634	71,859	70,223
Depreciation and amortization	2,706	2,785	7,896	8,258
Research and development	2,531	2,031	7,059	5,273
Impairment of inventory and long-lived assets	—	—	40,435	20,372
Total expenses	29,661	28,450	127,249	104,126
(Loss) income from operations	(4,295 )	2,777	(53,033 )	(17,120 )
Other (expense) income:				
Interest expense	(611 )	(476 )	(1,811 )	(1,303 )
Other (expense) income, net	(49 )	74	(207 )	(154 )
Total other expense	(660 )	(402 )	(2,018 )	(1,457 )
(Loss) income before income taxes	(4,955 )	2,375	(55,051 )	(18,577 )
Income tax benefit (expense)	2,209	(400 )	19,840	6,490
Net (loss) income	\$(2,746 )	\$1,975	\$(35,211 )	\$(12,087 )
(Loss) earnings per common share:				
Basic (loss) earnings per common share	\$(0.05 )	\$0.04	\$(0.63 )	\$(0.22 )
Diluted (loss) earnings per common share	\$(0.05 )	\$0.04	\$(0.63 )	\$(0.22 )
Weighted average common shares:				
Weighted average common shares used in computing basic (loss) earnings per common share	56,899	54,578	55,523	54,430
Weighted average common shares used in computing diluted (loss) earnings per common share	56,899	54,947	55,523	54,430

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

FLOTEK INDUSTRIES, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net (loss) income	\$(2,746)	\$1,975	\$(35,211)	\$(12,087)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(68 )	(366 )	256	(531 )
Comprehensive (loss) income	\$(2,814)	\$1,609	\$(34,955)	\$(12,618)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

5

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

	Nine months ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$(35,211)	\$(12,087)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Impairment of inventory and long-lived assets	40,435	20,372
Depreciation and amortization	11,069	13,613
Amortization of deferred financing costs	308	260
Gain on sale of assets	(1,094)	(3,010)
Stock compensation expense	9,479	10,479
Deferred income tax benefit	(6,309)	(8,696)
Reduction in (excess) tax benefit related to share-based awards	883	(2,154)
Changes in current assets and liabilities:		
Accounts receivable, net	(3,744)	26,276
Inventories	(4,108)	(16,456)
Income taxes receivable	(13,687)	(3,104)
Other current assets	(1,076)	1,402
Accounts payable	6,417	(11,080)
Accrued liabilities	(2,515)	(1,462)
Income taxes payable	(1,807)	2,943
Interest payable	45	—
Net cash (used in) provided by operating activities	(915)	17,296
Cash flows from investing activities:		
Capital expenditures	(11,621)	(11,078)
Proceeds from sale of assets	1,201	3,225
Payments for acquisition, net of cash acquired	(7,863)	(1,250)
Purchase of patents and other intangible assets	(396)	(434)
Net cash used in investing activities	(18,679)	(9,537)
Cash flows from financing activities:		
Repayments of indebtedness	(15,398)	(8,357)
Borrowings on revolving credit facility	256,738	291,916
Repayments on revolving credit facility	(249,324)	(279,832)
Debt issuance costs	(147)	(10)
(Reduction in) excess tax benefit related to share-based awards	(883)	2,154
Purchase of treasury stock related to share-based awards	(925)	(5,376)
Proceeds from sale of common stock	30,610	779
Repurchase of common stock	—	(7,299)
Proceeds from exercise of stock options	134	22
Proceeds from noncontrolling interest	—	7
Net cash provided by (used in) financing activities	20,805	(5,996)
Effect of changes in exchange rates on cash and cash equivalents	55	(31)
Net increase in cash and cash equivalents	1,266	1,732
Cash and cash equivalents at the beginning of period	2,208	1,266

Cash and cash equivalents at the end of period	\$3,474	\$2,998
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See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

6

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FLOTEK INDUSTRIES, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(in thousands)

Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)
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