FLOTEK INDUSTRIES INC/CN/
Form 10QSB/A
February 03, 2003

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

FORM 10 - QSB/A-1

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

FOR THE QUARTER ENDED MARCH 31, 2002

[_] 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.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation)	90-0023731 (I.R.S. Employer Identification Number)
7030 Empire Central Drive, Houston TX (Address of Principal Executive Offices)	77040 (Zip Code)

Registrant's telephone number, including area code: (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 [x] No [_]

The number of shares of the Registrant's common stock outstanding on May 14, 2002 was 4,910,812.

Transitional Small Business Disclosure Format (check one):

Yes [_] No [x]

EXPLANATORY NOTE
FLOTEK INDUSTRIES, INC.

The purpose of this amendment No. 1 to the Flotek Industries, Inc. Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2002 is solely to reflect a cumulative effect of an accounting change, as a result of the adoption of the Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", effective January 1, 2002. This new accounting pronouncement allows companies until December 31, 2002 to quantify the impairment charge, if any, but requires companies to record this charge effective January 1, 2002, resulting in this amended Form 10-QSB.

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PART I

Item 1 - Financial Information

FLOTEK INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2002 (Unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 45,238
Accounts receivable, less reserve of $182,800 and $208,333, as of March 31, 2002 and December 31, 2001, respectively	3,189,903
Inventories and work in progress	3,314,329
Other current assets	67,144
Total current assets	6,616,614
Property and equipment, net	4,173,413
Goodwill, net	12,866,345
Patents and other intangibles, net	295,657
Other assets	53,589
Total assets	$24,005,618
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 2,020,181
Accrued liabilities	240,801
Amounts due to related parties	120,839
Notes payable	2,711,790
Current portion of long-term debt	1,052,731
Capital lease obligations, current portion	15,909
Total current liabilities	6,162,251
Long-term debt	2,997,103
Capital lease obligations, long-term	1,369,591
Stockholders' equity:	
Preferred stock, $.0001 par value, 100,000 shares authorized, no shares issued	-

Common stock, $.0001 par value, 20,000,000 shares authorized, 4,910,812 and 4,850,696 shares issued and outstanding as of March 31, 2002 and December 31, 2001, respectively..................................	491
Additional paid-in capital..	15,762,346
Accumulated deficit...	(2,286,164)
Total stockholders' equity..................................	13,476,673
Total liabilities and stockholders' equity..................	$24,005,618

The accompanying notes are an integral part of these statements.

FLOTEK INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended Marc	
	2002	2001
Revenues..	$ 3,659,583	$ 2,68
Cost of revenues..	2,098,813	1,55
Gross margin..	1,560,770	1,13
Expenses:		
Selling, general and administrative.....................	1,583,730	1,25
Depreciation and amortization...........................	148,545	13
Research and development................................	4,542	
Total expenses......................................	1,736,817	1,39
Loss from operations....................................	(176,047)	(25
Other income (expense):		
Interest expense..	(92,428)	(9
Interest income...	-	2
Other, net..	1,721	4
Total other income (expense)........................	(90,707)	(2

Loss before cumulative effect of change in accounting principle	(266,754)	(28
Cumulative effect of change in accounting principle	(452,745)	
Net loss	$ (719,499)	$ (28
Basic and diluted loss per common share before cumulative effect of change in accounting principle	$ (.055)	$
Cumulative effect of change in accounting principle	(.092)	
Basic and diluted net loss per common share	$ (.147)	$
Weighted average number of shares outstanding	4,892,301	2,50

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

FLOTEK INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulat Deficit
Balance at December 31, 2001	4,850,696	$ 485	$15,572,886	$(1,566,665
Common stock issued in acquisitions	60,116	6	189,460	-
Net loss	-	-	-	(719,499
Balance at March 31, 2002	4,910,812	$ 491	$15,762,346	$(2,286,164

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

FLOTEK INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ende 31,	
	2002	2
Cash flows from operating activities:		
Net loss..	$ (719,499)	$
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization...........................	148,545	
Change in accounting principle..........................	452,745	
Gain on sale of assets..................................	-	
(Increase) decrease in:		
Accounts receivable.................................	(1,000,337)	
Inventories and work in progress.....................	389,824	
Other current assets.................................	(42,409)	
Accounts payable and accrued liabilities............	(687,147)	
Net cash used in operating activities	(1,458,278)	
Cash flows from investing activities:		
Acquisition of subsidiaries, net...........................	(122,250)	(
Capital expenditures.......................................	(650,019)	
Proceeds from sales of assets..............................	-	
Deposits and other...	33,806	
Net cash used in investing activities..............	(738,463)	(
Cash flows from financing activities:		
Issuance of stock for cash.................................	-	
Proceeds from borrowings...................................	1,653,614	
Proceeds from sale/leaseback transaction...................	761,000	
Repayments of indebtedness.................................	(391,663)	
Proceeds from (payments to) related parties................	(12,016)	
Principal payments on capital leases.......................	(9,394)	
Net cash provided by financing activities...........	2,001,541	
Net increase (decrease) in cash and cash equivalents............	(195,200)	
Cash and cash equivalents - beginning of period.................	240,438	
Cash and cash equivalents - end of period.......................	$ 45,238	$

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

FLOTEK INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Continued)

		For the Three Months 2002
Supplemental schedule of noncash investing and financing activities:		
Land and building acquired under capital lease................	$	-
Supplemental disclosures of cash flow information:		
Acquisition of subsidiaries:		
Assets (liabilities) acquired:		
Cash..	$	-
Accounts receivable...................................		-
Inventories and work in progress......................		-
Other current assets..................................		-
Property and equipment................................		-
Marketable securities.................................		-
Patents and other intangibles.........................		104,466
Goodwill..		207,250
Other assets..		-
Debt..		-
Accounts payable and accrued liabilities..............		-
		311,716
Common stock issued......................................		(189,466)
Promissory notes issued..................................		-
Net cash paid to sellers and transaction costs............	$	122,250
Cash paid for interest....................................	$	92,428

FLOTEK INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - General

The consolidated condensed financial statements included herein are unaudited and have been prepared by Flotek Industries, Inc. (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information relating to the Company's organization and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted in this Form 10-QSB pursuant to such rules and regulations. 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. These 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, 2001. The results of operations for interim periods are not necessarily indicative of the results expected for the full year.

Note 2 - Acquisitions

In January 2002, the Company issued 26,116 shares of common stock to the former shareholders of Material Translogistics, Inc. ("MTI"). Under the original acquisition agreement, which had an effective date of June 29, 2001, the shareholders of MTI could receive up to 52,232 additional shares of common stock, contingent upon the execution of two future contracts. One of these contracts became effective in January 2002 and the shares issued above relate to that contract. The other contract had not been executed as of March 31, 2002.

On February 19, 2002, the Company acquired 100% of the common stock of IBS 2000, Inc. ("IBS"), a Denver-based company engaged in the development and manufacturing of environmentally neutral chemicals for the oil industry. IBS is in the development stage and has had limited operating history. The Company paid $100,000 in cash and issued 34,000 shares of common stock to acquire IBS. Including legal and other transaction costs, the acquisition resulted in the recording of approximately $197,000 of goodwill and other intangibles.

Note 3 - Accounts Receivable

At March 31, 2002, the Company had approximately $1,794,000 of accounts receivable from a customer in Venezuela, of which $966,000 arose from goods shipped in the first quarter of 2002 and $828,000 was recorded prior to December 31, 2001. As a result of political instability and work disruptions in the country, these amounts have not been paid within the customary payment terms for this customer and no payments have been received since September 2001. The ultimate customer for these goods is PDVSA, the national oil company of Venezuela. Our customer holds a contract to deliver over $5 million of our proprietary products to PDVSA during the next three years. However, PDVSA has delayed acceptance of the majority of the goods shipped until its field operations return to higher activity levels. Our customer is unable to pay for the goods until payment has been received from PDVSA. We have been informed that activity levels are returning to previous levels and we expect a resumption of product receipts and payments by PDVSA during the second quarter of 2002. The Company has an established long-term relationship with this customer and believes that it will ultimately collect the balance due, but cannot accurately predict the timing of future payments. The Company has not provided a reserve for doubtful accounts associated with this balance.

Note 4 - Inventories and Work in Progress

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. Work in progress consists of percentage of completion revenues recognized in excess of customer billings plus any provision for estimated losses on contracts. The components of inventories and work in progress at March 31, 2002 and December 31, 2001 were as follows:

	March 31, 2002	December 31, 2001
Raw materials	$ 392,214	$ 496,332
Finished goods	1,823,109	1,856,011
Manufacturing parts and materials	629,667	708,036
Work in progress	775,190	1,000,799
Inventory valuation reserve	(305,851)	(357,025)
Inventories and work in progress, net	$ 3,314,329	$ 3,704,153

Note 5 - Property and Equipment

At March 31, 2002 and December 31, 2001, property and equipment were comprised of the following:

	March 31, 2002	December 31, 2001
Land	$ 138,700	$ 145,000
Buildings and leasehold improvements	2,206,226	2,114,878
Machinery and equipment	1,121,990	1,128,894
Construction in progress	484,149	-
Furniture and fixtures	67,936	135,937
Transportation	566,244	456,794
Computer equipment	90,451	77,436
Total property and equipment	4,675,696	4,058,939
Less accumulated depreciation	502,283	387,000

Net property and equipment..................	$ 4,173,413	$ 3,671,939
	=========	=========

Note 6 - Goodwill and Other Intangible Assets

The Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") effective January 1, 2002. This statement addresses accounting and reporting for acquired goodwill and intangible assets. In the third quarter of 2002, the Company completed its initial assessment of goodwill impairment as required under SFAS No. 142. In accordance with the transitional provisions of SFAS No. 142, the Company determined, with the assistance of an independent appraiser, that the carrying value of goodwill and related assets of the Equipment Specialties reporting unit exceeded its fair value. There was

Note 6 - Goodwill and Other Intangible Assets (Continued)

approximately $1.3 million of goodwill attributable to the Equipment Manufacturing segment, which consists of two reporting units, Equipment Specialties and MTI. As a result, the Company recognized a charge to income of $452,745 ($.092 loss per share) for the Equipment Specialties reporting unit, which represents all of this unit's goodwill. Our test concluded there was no impairment for MTI. The goodwill impairment is reflected as the cumulative effect of change in accounting principle during the first quarter of 2002. As of the end of each period presented, all of the Company's other intangible assets had definitive lives and were being amortized accordingly.

Following is a reconciliation of goodwill:

Beginning balance, December 31, 2001..............	$13,111,840
Acquisitions.....................................	207,250
Goodwill impairment, January 1, 2002 associated with the Equipment Specialties reporting unit.................................	(452,745)

Ending balance, March 31, 2002...................	$12,866,345
	===========

Following is a reconciliation of the reported net income (loss) to the adjusted net income (loss) reflecting the impact of the adoption of SFAS No. 142 on all periods presented:

	Three Months Ended March 31,	
	2002	2001
Reported net income (loss):		
Reported net income (loss)...............................	$ (719,499)	$(281,
Add back: Cumulative effect of accounting change for		

impairment of goodwill.......................	452,745	
Goodwill amortization........................	-	83,
Adjusted net income (loss)...............................	$ (266,754)	$(198,
Basic and Diluted earnings per share:		
Reported net income (loss)...............................	$ (.147)	$ (.
Add back: Cumulative effect of accounting change for impairment of goodwill.......................	.092	
Goodwill amortization........................	-	.
Adjusted net income (loss)...............................	$ (.055)	$ (.

Note 6 - Goodwill and Other Intangible Assets (Continued)

The Company evaluates the recoverability of its intangible assets subject to amortization 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. The impairment amount is measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value. As of March 31, 2002, the Company did not recognize any impairment associated with its long-lived assets.

Other intangible assets are comprised of the following:

	March 31, 2002		Decem
	Gross Carrying Amount	Accumulated Amortization	Gross Carryin Amount
Patents.................................	$266,148	$74,955	$266,14
Other Intangibles.......................	104,464	-	
Total.................................	$370,612	$74,955	$266,14

	Aggregate Expense for the Three Months Ended	
	March 31, 2002	March 31, 2001
Patents.................................	$ 141	$ 118
Other Intangibles.......................	-	-
Total.................................	$ 141	$ 118

Estimated Amortization Expense:

For the year ended December 31, 2003	$ 68,400
For the year ended December 31, 2004	$ 57,954
For the year ended December 31, 2005	$ 26,616
For the year ended December 31, 2006	$ 26,616
For the year ended December 31, 2007	$ 26,616

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Note 7 - Capital Lease Obligation

On February 28, 2002, the Company sold its rights and obligation to purchase the land and buildings covered by a capital lease obligation, together with capital improvements to the property totaling approximately $750,000, to Oklahoma Facilities, LLC ("Facilities"). An officer of the Company has a minority investment interest in and is an officer of Facilities. The total consideration at closing was $1,400,000, with net cash proceeds to the Company of $761,000. The transaction did not generate any gain or loss. The Company simultaneously entered into a lease agreement with Facilities under which it is obligated to pay average rent of $18,000 per month for a fixed term of ten years. The Company has the right to buy the property at any time during the first two years of the lease for a fixed price of $1,400,000. The Company also has the option to purchase the building for a fixed price of $420,000 at the end of the ten-year lease term.

Note 8 - Notes Payable

Notes payable at March 31, 2002 and December 31, 2001 consisted of the following:

	March 31, 2002
Revolving line of credit, secured by accounts receivable and inventory, bearing interest at the prime rate plus 1.25%, due in May 2002, with maximum borrowings of $1,414,020 (1)..................................	$ 1,414,020
Revolving line of credit, secured by accounts receivable and inventory, bearing interest at the prime rate plus 1.25%, due in January 2003, with maximum borrowings of $1,608,100 (2).............................	1,267,770
Other notes payable...	30,000

Total notes payable	$ 2,711,790

(1) Limited to a borrowing base amount calculated as 60% of eligible accounts receivable and inventory.
(2) Limited to a borrowing base amount calculated as 50% of eligible accounts receivable and inventory.

Note 9 - Long-Term Debt

Long-term debt at March 31, 2002 and December 31, 2001, consisted of the following:

	March 31, 2002
Notes payable to shareholders of acquired businesses, unsecured, bearing interest at 9% payable quarterly, due in five annual installments of $200,000 each beginning January 2002	$ 800,000
Note payable to bank, bearing interest at the prime rate plus 1%, payable in monthly installments of $39,812 including interest, due in January 2008	2,356,315
Note payable to bank, bearing interest at the prime rate plus 1%, payable in monthly installments of $14,823 including interest, due in September 2004	426,074
Construction loan payable to bank, bearing interest at the prime rate plus 1%, payable in monthly installments of $25,923 including interest, due in January 2005	173,840
Mortgage note on property, bearing interest at 10%, payable in monthly installments of $1,451 including interest, with final payment of $111,228 due in December 2002	114,413
Notes payable to Duncan Area Economic Development Foundation, unsecured, interest at 6%, payable in monthly installments of $1,934 including interest, due in May 2006	83,111
Secured vehicle and other equipment loans	96,081
Total	4,049,834
Less current maturities	1,052,731
Long-term debt	$ 2,997,103

The revolving lines of credit and bank notes payable are owed to the Company's primary lending bank and are secured by substantially all of the assets of the Company. They have also been personally guaranteed by an officer of the Company. The construction loan payable has a maximum availability of $854,350 and is designated for the construction of a bulk material transload facility in Raceland, Louisiana. Of such available amount, $224,790 had been advanced and $50,950 had been repaid as of March 31, 2002.

Note 10 - Net Loss Per Common Share

Net loss per common share is calculated by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding. Dilutive loss per share is calculated by dividing net loss attributable to common shareholders by the weighted average number of common shares and dilutive potential common shares outstanding. There were no potentially dilutive common shares as of March 31, 2002 or December 31, 2001.

Note 11 - Segment Information

The Company has three reportable segments, as follows:

- The Specialty Chemicals segment develops, manufactures and packages chemicals used by other oilfield service companies in cementing and stimulation jobs.

- The Equipment Manufacturing segment designs and manufactures specialized cementing and stimulation equipment, including heavy vehicles used for pressure pumping, blending and bulk material transport. This segment also designs and constructs automated bulk material handling and loading facilities for other oilfield service companies.

- The Downhole Equipment segment manufactures and markets the Petrovalve line of downhole pump components and the Turbeco line of casing centralizers.

The Company's reportable segments are strategic business units that offer different products and services. Each business segment requires different technology and marketing strategies and is managed independently. The accounting policies used in each of the segments are the same as those described in the significant accounting policies. The Company evaluates the performance of its operating segments based on operating income excluding goodwill amortization and unusual charges. Intersegment sales and transfers are not material.

The following table presents the revenues and operating income for each reportable segment and for the three month periods ended March 31, 2002 and 2001:

	Three months ended March 31, 2002	Three months ended March 31, 2001
Revenues:		
Specialty Chemicals...........	$1,302,930	$1,990,110
Equipment Manufacturing.......	1,110,168	699,571
Downhole Equipment............	1,246,485	-
Consolidated..............	$3,659,583	$2,689,681
Income (loss) from operations:		
Specialty Chemicals...........	$ 118,503	$ 436,825
Equipment Manufacturing.......	(196,983)	(550,246)
Downhole Equipment............	454,506	-
Corporate and Other...........	(552,073)	(144,308)

Consolidated..............	$ (176,047)	$ (257,729)

ITEM 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

Flotek was established in 1985 and is currently traded on the OTC Bulletin Board market. On October 31, 2001, the Company completed a Merger with Chemical & Equipment Specialties, Inc. ("CESI"). The Merger has been accounted for as a reverse acquisition using the purchase method of accounting. In the Merger, the shareholders of the acquired company, CESI, received the majority of the voting interests in the surviving consolidated company. Accordingly, CESI was deemed to be the acquiring company for financial reporting purposes and the historical financial statements of the Company are the historical financial statements of CESI. All of the assets and liabilities of Flotek were recorded at fair value on October 31, 2001, the date of the Merger, and the operations of Flotek have been reflected in the operations of the combined company only for periods subsequent to the date of the Merger.

CESI was incorporated on June 27, 2000 to acquire businesses in the specialty chemical and equipment manufacturing segments of the oilfield service industry. It had no revenues or operations prior to the acquisitions of Esses, Inc., Plainsman Technology, Inc., Neal's Technology, Inc., and Padko International, Inc. in January 2001. It subsequently acquired Material Translogistics, Inc. in June 2001. These five companies are referred to collectively as the "CESI Acquired Businesses".

The Company's product lines are divided into three segments within the oilfield service industry:

- The Specialty Chemicals segment develops, manufactures, packages and sells chemicals used in oil and gas well cementing, stimulation and production.

- The Equipment Manufacturing segment designs and manufactures specialized cementing and stimulation equipment, including heavy vehicles used for pressure pumping, blending and bulk material transport. This segment also designs, constructs and manages automated bulk material handling and loading facilities for other oilfield service companies.

- The Downhole Equipment segment manufactures and markets the Petrovalve line of downhole pump components and the Turbeco line of casing centralizers.

Our businesses serve the oil and gas industry. All of our businesses are affected by changes in the worldwide demand for and price of oil and natural gas. The majority of our products are dependent on the level of exploration and development activity and the completion phase of oil and gas well drilling.

Other products and services, such as our Petrovalve downhole pump products and certain of our specialty chemicals are more closely tied to the production of oil and gas and are less dependent on drilling activity.

The oil and gas industry has been subject to significant volatility in recent years due to changes in the demand, supply and pricing of oil and natural gas. The U.S. rig count, as measured by Baker Hughes Incorporated, began 2001 at around 1,100 active rigs and reached a peak of almost 1,300 in July 2001. During the third quarter of 2001, the demand for oil and natural gas began to weaken in response to slowing growth in worldwide economies. This resulted in a slowdown in North American drilling rig activity, with a steady decline in the rig count during the second half of 2001 until it had reached a level of just under 900 active rigs at December 31, 2001. During the quarter ended March 31, 2002, the rig count has dropped further, with around 750 active rigs working at the end of the quarter. Natural gas prices have declined from a near record high of almost $10.00 per Mcf in early 2001 to approximately $2.50 per Mcf at year-end. Crude oil prices experienced a similar decline in 2001, from $30.00 per barrel at the beginning of the year to below $20.00 at the end. As of March 31, 2002 prices for both commodities had recovered to approximately $3.50 per Mcf and $27.00 per barrel, respectively. Our businesses were adversely affected by the decline in drilling activity which began in the second half of 2001 and continued in the

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first quarter of 2002. Many industry observers expect drilling activity levels to increase during the remainder of 2002 based on higher oil and gas prices and an expected rebound in overall economic activity. However, we continue to face a challenging industry environment in the near term and there can be no assurance that these expected improvements will occur.

Risk Factors

The Company faces various business risks specific to its industry, product lines, financial resources and competitive position, as well as general economic and financial risks. The following risk factors, among others, may cause the Company's operating results and/or financial position to be adversely affected:

- The Company is dependent on the oil and gas industry, and activity levels in the industry are volatile.

- Oil and gas prices are volatile and have a direct impact on the spending levels of our customers.

- The oilfield service industry is highly competitive and we must compete with many companies possessing greater financial resources and better established market positions.

- The introduction of new products and technologies by competitors may adversely affect the demand for our products and services.

- The Company's debt service obligations may limit our ability to fund operations and capital spending or provide for future growth.

- The Company may not be able to successfully manage its growth.

- Changes in political conditions, governmental regulations, economic and financial market conditions, unexpected litigation and other uncertainties may have an adverse effect on our operations.

Results of Operations

Three months ended March 31,	2002	2001
Revenues	$ 3,659,583	$ 2,689,681
Cost of revenues	2,098,813	1,557,185
Gross margin	1,560,770	1,132,496
Gross margin %	42.6%	42.1%
Selling, general and administrative	1,583,730	1,253,740
Depreciation and amortization	148,545	135,429
Research and development	4,542	1,056
Total expenses	1,736,817	1,390,225
Operating income (loss)	(176,047)	(257,729)
Operating income (loss) %	(4.8)%	(9.6)%
Interest expense	(92,428)	(93,059)
Interest income	-	24,858
Other, net	1,721	44,101
Other income (expense), net	(90,707)	(24,100)
Pre-tax income (loss)	$ (266,754)	$ (281,829)

Total revenues increased by $970,000, or 36.17%, in the first quarter of 2002 compared to the comparable period in 2001. As discussed in the segment analysis below, the Specialty Chemicals segment experienced a significant drop in revenues in 2002 compared to 2001, while the Equipment Specialties and Downhole Equipment segments had higher revenues in the 2002 quarter, although these increases resulted primarily from business combinations whose operations were not reflected in the first quarter of 2001.

On an aggregate basis, the gross margin as a percentage of revenues increased very slightly, from 42.1% in 2001 to 42.6% in 2002. The gross margin is best analyzed on a segment by segment basis, discussed below, as the margin varies significantly between operating segments and can vary significantly from period to period in certain of our operating segments.

Selling, general and administrative ("SG&A") costs represent the costs of selling, operations and overhead expenses not directly attributable to products sold or services rendered. The revenues from services are less than 10% of consolidated revenues and the direct costs of providing these services are included in cost of revenues. SG&A amounted to 43.3% of revenues in 2002, a decrease of 3.3% of revenues from the level of 46.6% in 2001. The costs of operations and administration decreased as a percentage of revenues as we were able to spread these semi-fixed costs over a larger revenue base.

Interest expense did not change significantly between periods. While the average amount outstanding under the Company's credit agreements was higher in 2002 as a result of the financing of capital expenditures and increased working capital needs during the year, interest rates were significantly lower in 2002 and the decline in rates more than offset the additional interest expense associated with higher debt levels. The majority of the Company's indebtedness carries a variable interest rate tied to the prime rate and is adjusted on a quarterly basis.

As more fully discussed in Note 6 to the Consolidated Financial Statements, the Company completed in the third quarter of 2002, its initial assessment, with the assistance of a third-party appraiser, of goodwill impairment as required under SFAS No. 142. There was approximately $1.3 million of goodwill attributable to the Equipment Manufacturing segment, of which we have identified two reporting units, Equipment Specialties and MTI. Our test concluded that all of the goodwill attributable to Equipment Specialties, totaling $452,745, was impaired. Consequently,

we have recognized this impairment loss as of March 31, 2002. Out test concluded that no impairment loss existed for the MTI reporting unit.

Results by Segment

Specialty Chemicals

	Three months ended March 31, 2002	Three months ended March 31, 2001
Revenues.........................	$1,302,930	$1,990,110
Gross margin......................	$ 514,344	$1,009,160
Gross margin percentage......	39.5%	50.7%
Operating income..................	$ 118,503	$ 436,825
Operating margin percentage..	9.1%	21.9%

Specialty Chemical revenues decreased by $687,000, or 34.5%, in the current year from 2001 levels. Sales in this segment are heavily dependent on drilling activity and the decrease in revenue is primarily attributable to sharply lower drilling activity in the first quarter of 2002 versus 2001. Average product pricing levels in this segment declined as lower demand caused our pricing to come under pressure.

The gross margin percentage in this segment also declined significantly from 50.7% in 2001 to 39.5% in 2002. In certain cases, in trying to maintain sales levels and market share, we sold our products at a lower gross margin. The combination of lower revenues and lower gross margins had a significant adverse effect on our operating margin and overall levels of operating income.

Operating income fell $318,000, or 73%, in the current year from 2001 levels, primarily as a result of lower revenues and gross margins. We took actions to reduce our selling, general, and administrative expenses in this segment to keep these costs in line with the reduced revenue levels. However, the above revenue and margin issues combined to result in a significant decrease in our operating margin percentage in this segment from 21.9% in 2001 to 9.1% in 2002.

Equipment Manufacturing

	Three months ended March 31,	
	2002	2001
Revenues..........................	$ 1,110,168	$ 699,571
Gross margin......................	$ 282,994	$ 123,336
Gross margin percentage......	25.5%	17.6%
Operating income..................	$ (196,983)	$ (550,246)
Operating margin percentage..	(17.7%)	(78.7%)

Equipment Manufacturing revenues increased $411,000, or 58.7%, in 2002 over 2001 levels. This increase primarily resulted from the addition of Material Translogistics, Inc. ("MTI"), a company that was acquired in June 2001. Under purchase accounting, MTI's results of operations are included only for periods subsequent to the acquisition; therefore it is not reflected in the results for the first quarter of 2001. During the first quarter of 2002, MTI had revenues of $482,000 and positive operating income of $48,000. We continued to experience poor results in our Equipment Specialties operations (formerly Neal's Technology, Inc.) and initiated cost reduction measures during the first quarter of 2002 that reduced the loss we sustained in 2002.

The gross margin improved in the first quarter of 2002 to 25.5% from 17.6% in 2001, primarily as a result of the addition of MTI's business, which had a 43% gross margin on its revenues in 2002.

Subsequent to the Merger, the Company replaced the management of this segment and focused significant efforts and financial resources on improving the performance of this segment, including the implementation of improved operating procedures, better accounting controls and proper documentation of work processes. The Company also initiated cost reduction measures in response to lower revenue levels and reduced sales expectations. While significant improvements have been made, this segment continued to operate at a loss, although the magnitude of that loss has been reduced.

We continue to face a difficult market outlook for the equipment manufacturing operations in this segment. Orders for new manufactured equipment slowed significantly in the second half of the year. Management is continuing to solicit new orders and in the event it does not secure sufficient new orders, the Company is prepared to take continuing action to limit its financial exposure from further losses in this segment.

The outlook for MTI's operations within this segment, consisting of the design, construction and management of bulk material handling and loading facilities, is much more positive. Based on the current work in progress and outstanding bids in response to requests for quotations, management believes that the revenues and operating margin attributable to these operations will continue to increase over the remainder of 2002. However, there can be no assurance that the Equipment Manufacturing segment as a whole will be profitable. As more fully discussed in Note 1 of the Notes to Consolidated Financial Statements, there is approximately $1.3 million of net goodwill attributable to this segment, all or some portion of which may be subject to an impairment charge based on new accounting requirements which must be implemented by the end of 2002.

As more fully discussed in Note 6 to the Consolidated Financial Statements, the Company completed in the third quarter of 2002, its initial assessment, with the assistance of a third-party appraiser, of goodwill impairment as required under SFAS No. 142. There was approximately $1.3 million of goodwill attributable to the Equipment Manufacturing segment, of which we have identified two reporting units, Equipment Specialties and MTI. Our test concluded that all of the goodwill attributable to Equipment Specialties, totaling $452,745, was impaired. Consequently, we have recognized this impairment loss as of March 31, 2002. Out test concluded that no impairment loss existed for the MTI reporting unit.

Downhole Equipment

	Three months ended March 31, 2002	Three months ended March 31, 2001
Revenues...........................	$ 1,246,485	$ -
Gross margin.......................	$ 763,432	$ -
Gross margin percentage........	61.2%	-
Operating income...................	$ 454,506	$ -
Operating margin percentage....	36.5%	-

The Downhole Equipment segment became part of the consolidated group after the Merger became effective on October 31, 2001. These operations, which consist of manufacturing and marketing the Petrovalve line of downhole pump components and the Turbeco line of casing centralizers, were the original operations of Flotek Industries, Inc. prior to the Merger. Since the Merger was recorded for accounting purposes as a reverse merger, the results of operations of this segment were included in the consolidated results of operations only for periods subsequent to the Merger and are not reflected in the first quarter of 2001.

Our Petrovalve sales, totaling $973,000 in the first quarter of 2002, were almost exclusively to one customer in Venezuela. As more fully discussed in Note 3 of the Notes to Consolidated Financial Statements and the Capital Resources and Liquidity section, below, this customer has not paid for these goods within the customary payment terms. These sales carry a high gross margin and are significantly profitable to this segment. Sales of the Turbeco line of casing centralizers, which constitute the balance of the revenues in this segment, are very dependent on the level of drilling activity and have suffered from lower demand. We have recently seen signs of improvement in this line of business and are positive about the outlook for the balance of the year.

Capital Resources and Liquidity

In the first quarter of 2002, the Company sustained a net loss of $267,000 and had negative cash flow from operations of $1.46 million. These losses resulted primarily from the poor operating results in the Equipment Manufacturing segment, although the losses were reduced from the levels in 2001. As discussed above, management has taken and will continue to take appropriate steps to improve performance and attempt to limit the losses in this segment. The negative cash flow resulted primarily from delays in collecting accounts receivable from sales to a Venezuelan customer, as discussed below.

As of March 31, 2002, net working capital was approximately $454,000, resulting in a current ratio of 1.07 to 1. The balance in accounts payable and accrued liabilities decreased $687,000 during the first quarter of 2002, as we used part of the proceeds of borrowings to pay vendor invoices.

As disclosed in Note 3 of the Notes to Consolidated Financial Statements, at March 31, 2002, the Company had approximately $1,794,000 of accounts receivable from a customer in Venezuela, of which $966,000 arose from goods shipped in the first quarter of 2002 and $828,000 was recorded prior to December 31, 2001. As a result of political instability and work disruptions in the country, these amounts have not been paid within the customary payment terms for this customer and no payments have been received since September 2001. The ultimate customer for these goods is PDVSA, the national oil company of Venezuela. Our customer holds a contract to deliver over $5 million of our proprietary products to PDVSA during the next three years. However, PDVSA has delayed acceptance of the majority of the goods shipped until its field operations return to higher activity levels. Our customer is unable to pay for the goods until payment has been received from PDVSA. We have been informed that activity levels are returning to previous levels and we expect a resumption of product receipts and payments by PDVSA during the second quarter of

2002. The Company has an established long-term relationship with this customer and believes that it will ultimately collect the balance due, but we cannot accurately predict the timing of future payments. The Company has not provided a reserve for doubtful accounts associated with this balance. The failure to collect this accounts receivable balance has had a significant adverse effect on the cash flow of the Company. Additionally, all invoice amounts which are greater than 90 days old cannot be included in the borrowing base under our lines of credit.

During the first quarter of 2002, the Company entered into a sale and leaseback transaction regarding its Equipment Manufacturing facility in Duncan, Oklahoma. This transaction resulted in net cash proceeds to the Company of $761,000. The Company simultaneously entered into an agreement to lease back the facility over ten years. This transaction has been recorded as a capital lease.

The Company also borrowed $1.65 million under its line of credit arrangements, including a new $1.6 million line of credit which was executed in January of 2002. We have had discussions with our primary lending bank and they have given us a verbal indication that the $1.4 million dollar line of credit , which is due on May 29, 2002, will be extended until May 29, 2003. We also made total debt service payments of approximately $400,000 during the first quarter of 2002. The Company has estimated minimum debt service obligations in 2002 of $1.8 million. This amount includes the estimated minimum principal and interest payments on the new credit agreements and capital lease obligations incurred during the first quarter of 2002.

Capital expenditures during the first quarter of 2002 were $650,000. The majority of these capital expenditures relate to a bulk material transload facility which the Company is constructing in Raceland, Louisiana. With the exception of the capital expenditures required to complete the construction of this project, the Company does not at this time expect to have any major requirements for capital expenditures in 2002. As discussed in Note 9 of the Notes to Consolidated Financial Statements, the capital required to complete the Raceland transload facility is expected to be substantially financed by a construction loan in the amount of $854,350.

The Company believes its operations are capable of generating sufficient cash flow to meet its debt service obligations and working capital needs during the next twelve months. However, we face a challenging near-term industry environment and there are many factors involved in executing our business strategy which are beyond our control. In particular, it is critical that we successfully collect amounts due from our Venezuelan customer. In the event that we are unable to collect at least part of these amounts due in the near future, or if we are unable to successfully limit our losses in the Equipment Manufacturing segment, the Company may be forced to seek additional equity or debt financing. There can be no assurance that the Company would be able to secure such financing on terms which would be acceptable to it. Accordingly, investors are advised that the Company faces significant financial risks in the next year as we attempt to meet these challenges.

Forward Looking Statements

Except for the historical information contained herein, the discussion in this Form 10-QSB includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. The words "anticipate," "believe," "expect," "plan," "intend," "project," "forecast," "could" and similar expressions are intended to identify forward-looking statements. All statements other than statements of historical facts included in this Form 10-QSB regarding the Company's financial position, business strategy, budgets and plans and objectives of management for future operations are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those in the forward-looking statements for various reasons including the effect of competition, the level of petroleum industry exploration and production expenditures, world economic conditions, prices of, and the demand for crude oil and natural gas, weather, the

legislative environment in the United States and other countries, adverse changes in the capital and equity markets, and other risk factors identified herein.

Item 4 - Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for the Company. Such officers have concluded (based upon their evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in this report is accumulated and communicated to the Company's management, including its principal executive officers as appropriate, to allow timely decisions regarding required disclosure.

The Certifying Officers also have indicated that there were no significant changes in the Company's internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, however, there are corrective actions required with respect to significant deficiencies and material weaknesses in internal controls as follows:

Weakness	Solution
1. A contingency plan has not been deveoped for alternative processing of data in the event of loss or interruption of the IT server(s)	Develop a backup plan by March 31, 2003
2. Off premises storage is not maintained for applications and related documentation	Identify applications and related documentation that need to be stored off-site and move to off-site storage by March 31, 2003
3. Annual property plant and equipment (PP&E) inventories have not been taken	Complete annual phjysical inventory of PP&E by December 31, 2002
4. Physical controls of Equipment Specialties inventory need improvement	Move inventory to a secure site by December 31, 2002

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

On May 1, 2002, Milam Tool Company and the Estate of Jack J. Milam filed a complaint against Flotek Industries, Inc., Turbeco, Inc., and Jerry D. Dumas, Sr. individually, in the United States District Court for the Southern District of Texas, Houston Division. The complaint asserts that the sale of TURBO-LOK turbulators, which are part of the Company's Downhole Equipment segment, violates an agreement among the parties and infringes a United States patent controlled by the plaintiffs. Plaintiffs seek injunctive relief and unspecified damages. The Company strongly denies the assertions in the complaint and intends to vigorously contest this matter.

Item 2 - Changes in Securities and Use of Proceeds

In January 2002, the Company issued 26,116 shares of common stock to the former shareholders of Material Translogistics, Inc., which were issued in accordance with the terms of the original acquisition agreement. In February 2002, the Company issued 34,000 shares of common stock in connection with the acquisition of IBS 2000, Inc. Additional disclosure related to the issuance of these shares is included in Note 2 of the Notes to Consolidated Financial Statements.

The foregoing issuances of common stock were made in reliance upon the exemption from registration set forth in Section 4(2) of the Securities Act of 1933 for transactions not involving a public offering. No underwriters were engaged in connection with the foregoing sales of securities. The sales were made without general solicitation or advertising. Each purchaser was an "accredited investor" or a sophisticated investor with access to all relevant information necessary to evaluate the investment who represented to the Company that the sales were being acquired for investment.

Item 3 - Defaults Upon Senior Securities

None.

Item 4 - Submission of Matters to a Vote of Security Holders

None.

Item 5 - Other Information

None.

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Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description of Exhibit
10.1	Lease Agreement with Option to Purchase, dated February 28, 2002, by and between Oklahoma Facilities, LLC and Neal's Technology Company, Inc. For document description, see Flotek Industries, Inc. Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2002, as filed on May 20, 2002.
10.2	Employment Contract dated July 1, 2000, by and between Chemical & Equipment Specialties, Inc. and Glenn S. Penny. For document description, see Flotek Industries, Inc. Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2002, as filed on May 20,2002.
99.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

Current Report on Form 8-K/A filed with the Securities and Exchange Commission on January 16, 2002. This Amendment No. 1 to Current Report on Form 8-K filed on November 14, 2001 included the financial statements of CESI and the separate financial statements of its recently acquired subsidiaries, Esses, Inc., Plainsman Technology, Inc., Neal's Technology, Inc., Padko International, Inc. and Material Translogistics, Inc. In addition, this report included unaudited pro forma combined financial statements related to the merger of the Company with CESI.

SIGNATURE

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FLOTEK INDUSTRIES, INC.

Date: February 03,2003

/s/ Jerry D. Dumas, Sr.

Jerry D. Dumas, Sr.
Chairman and Chief Executive Officer

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Flotek Industries, Inc. on Form 10-QSB/A-1 for the quarter ended March 31, 2002, as filed with the Securities and Exchange Commission on the date hereof, I, Jerry D. Dumas, Sr., the Chief Executive Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this quarterly report on Form 10-QSB/A-1 of Flotek Industries, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 03, 2003

/s/ Jerry D. Dumas, Sr.

Jerry D. Dumas, Sr.
Chief Executive Officer

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Flotek Industries, Inc. on Form 10-QSB/A-1 for the quarter ended March 31, 2002, as filed with the Securities and Exchange Commission on the date hereof, I, Mark D. Kehnemund, the Chief Financial Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this quarterly report on Form 10-QSB/A-1 of Flotek Industries, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 03, 2003

/s/Mark D. Kehnemund

Mark D. Kehnemund
Sr. Vice President & Chief Financial Officer