

FLOTEK INDUSTRIES INC/CN/
Form SB-2/A
December 27, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**FORM SB-2/A
(Amendment No.2)**

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Flotek Industries, Inc.

(Name of small business issuer in its charter)

| | | |
|--|--|---|
| Delaware (State or jurisdiction of incorporation or organization) | 5084 (Primary Standard Industrial Classification Code Number) | 90-0023731 (I.R.S. Employer Identification Number) |
|--|--|---|

**7030 Empire Central Drive
Houston, TX 77040
(713) 849-9911**

(Address and telephone number of principal executive offices and principal place of business)

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Doherty & Doherty LLP
1717 St. James Place, Suite 520
Houston, TX 77056
(713) 572-1000**

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(Name, address and telephone number of agent for service)

Approximate date of proposed sale to the public: From time to time after this registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this registration statement shall become effective on such date as the SEC acting pursuant to said Section 8(a) may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion. Dated December 27 , 2005.

PROSPECTUS

2,618,468 Shares

FLOTEK INDUSTRIES, INC.

Common Stock

This prospectus relates to an aggregate of 2,618,468 shares of our common stock that may be sold by the selling shareholders named in this prospectus under the heading "Selling Shareholders". Of that number, 2,542,439 shares were acquired from us in two private placements and 76,029 shares will be issued by us to the selling shareholders upon the exercise of outstanding warrants held by them. This prospectus covers the resale by the selling shareholders of all of those shares.

The selling shareholders may offer and sell the shares of our common stock in their discretion from time to time at prevailing market prices, at negotiated prices or at fixed prices. We will not receive any of the proceeds from the sale of those shares, but we will receive gross proceeds of \$842,660 if all of the warrants are exercised for cash by the selling shareholders.

We have agreed with the selling shareholders to bear all of the expenses incurred in connection with the registration of these shares, and the selling shareholders will pay any brokerage commissions or similar charges incurred for the sale of their shares of our common stock. The shares of common stock may be sold through broker-dealers or in privately negotiated transactions in which commissions and other fees may be charged.

Our common stock is traded on the American Stock Exchange under the symbol "FTK." On December 23, 2005, the last sale price for the common stock, as reported on the American Stock Exchange, was \$18.90 per share.

See "Risk Factors" beginning on page 4 for factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2005

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SUMMARY INFORMATION

The following summary highlights key aspects of the information contained elsewhere in this prospectus. We urge you to read this entire prospectus, including the more detailed consolidated financial statements and notes to the consolidated financial statements prior to making an investment decision. Investing in our common stock involves risks. Therefore, please carefully consider the information provided under the heading "Risk Factors" beginning on page 4.

Our Business

Flotek is a Delaware corporation engaged in the manufacturing and marketing of innovative specialty chemicals and downhole drilling and production equipment, and in the management of automated bulk material handling, loading and blending facilities. Flotek serves major and independent companies in the domestic and international oilfield service industry. Company headquarters are located in Houston, Texas, and we have operations in Texas, Oklahoma, Louisiana, Utah and Wyoming. We market our products domestically and internationally in over 20 countries. As used in this prospectus, the terms "company", "Flotek", "we", "our", "ours", and "us" may, depending upon the context, refer to Flotek Industries, Inc. together with its consolidated subsidiaries taken as a whole.

Our principal executive offices are located at 7030 Empire Central Drive, Houston, Texas, 77040, and our telephone number at that address is (713) 849-9911. Our website is located at www.flotekind.com. The information on our website is not part of this prospectus.

The Offering

| | |
|--|---|
| Common Stock outstanding prior to this offering | 8,288,618 |
| Common Stock offered by selling shareholders, assuming full exercise of common stock purchase warrants | 2,618,468 |
| Common Stock to be outstanding after the offering | 8,364,647 |
| Use of Proceeds | We will not receive any proceeds from the sale of the common stock by the selling shareholders, although we could receive proceeds of up to \$842,660 if all of the warrants are exercised. |
| AMEX Trading Symbol | FTK |

Summary Financial Data

The summary consolidated financial data presented below is derived from and should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2004 and 2003, including the notes to those financial statements, and the unaudited interim condensed consolidated financial statements for the nine months ended September 30, 2005, including the notes to those financial statements, which are included elsewhere in this prospectus along with the section entitled "Management's Discussion and Analysis" beginning on page 15 of this prospectus.

| Statement of Operations Information | For the nine months ended September 30, 2005 | For the year ended December 31, 2004 | For the year ended December 31, 2003 |
|--|---|--|--|
| Revenues | \$ 36,805,438 | \$ 21,881,289 | \$ 14,844,431 |
| Gross Profit | \$ 15,059,412 | \$ 9,351,658 | \$ 5,580,340 |
| Net income (loss) for the period | \$ 5,226,328 | \$ 2,153,689 | \$ (7,384,107) |
| Basic earnings (loss) per common share | \$ 0.75 | \$ 0.32 | \$ (1.23) |

| Balance Sheet Information | As at September 30, 2005 | As at December 31, 2004 | As at December 31, 2003 |
|--|-----------------------------|----------------------------|----------------------------|
| Total Assets | \$ 48,484,273 | \$ 15,957,087 | \$ 13,970,338 |
| Total Liabilities | \$ 15,722,023 | \$ 11,134,194 | \$ 11,410,234 |
| Working Capital (Negative Working Capital) | \$ 19,289,239 | \$ 318,979 | \$ (5,248,186) |
| Total Stockholders' Equity | \$ 32,712,250 | \$ 4,822,983 | \$ 2,560,104 |
| Common Stock Outstanding | 8,241,035 | 6,670,004 | 6,521,670 |

RISK FACTORS

Our business is subject to a number of risks, some of which are discussed below. Before deciding to invest in our company or to maintain or increase your investment, you should carefully consider the risk factors described below. The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business and results of operations. If any of these risks actually occurs, our business, financial condition or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Business

We have had a history of losses. We incurred net losses in four of our last five years, including losses of approximately \$7.4 million in 2003, \$5.5 million in 2002, \$1.4 million in 2001 and \$159,000 in 2000. We had income of approximately \$2.2 million in 2004. Our ability to operate profitably depends on increasing our sales, expanding

our markets and achieving sufficient gross profit margins. We cannot assure you that we will achieve or maintain profitable operations in the future.

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We have experienced fluctuations in our revenues, which may continue in the future. Fluctuations in revenues are principally the result of the highly cyclical nature of the oil and natural gas exploration and drilling business and, to a lesser extent, geographic expansion of our sales and marketing. A decrease in oil and gas prices generally causes a decline in exploration and drilling activity resulting in decreased demand for our products that serve the drilling industry. Therefore, a decline in oil and natural gas prices will negatively impact our revenues and income. As a result of the cyclical nature of our industry, our results of operations have been volatile, and we expect this volatility to continue.

Our historical results are not an indicator of our future operations. We have made numerous acquisitions during the past year. As a result of these transactions, our past performance is not indicative of future performance, and investors in the common stock should not base their expectations as to our future performance on our historical results.

We may have difficulty integrating acquired businesses. The integration of new businesses will be complex and time consuming, will be a drain on management's resources, and may disrupt our businesses. We may be adversely impacted by unknown liabilities of acquired businesses. We may encounter substantial difficulties, costs and delays involved in integrating common accounting information and communication systems, operating procedures, internal controls and human resources practices, including incompatibility of business cultures and the loss of key employees and customers. These difficulties may increase operating expenses and hinder our ability to achieve the synergies we expect from the combination of businesses, including reduced overhead through shared facilities, cross-marketing to customers and accessing a larger pool of customers through the provision of a larger range of services.

Our international operations are subject to special risks that can materially affect our sales and profits. Our international operations have increased business and credit risks inherent in doing business in countries with legal and political policies different from those in the United States. Those risks can include unsettled political conditions, war, civil unrest, boycotts, inflation and fluctuations in foreign currency exchange rates. Governmental reaction to the general legislative and regulatory environment, exchange controls, changes in global trade policies such as trade restrictions and embargos by the United States and other countries, and changes in international business, political and economic condition can negatively impact our international operations. In addition, future trends for pricing, margins, revenue and profitability remain difficult to predict in the industries we serve and under current economic and political conditions. Most of these risks are beyond our control.

The loss of key personnel would adversely affect our operations and future potential acquisitions. We are dependent upon the efforts and skills of our executives to manage our business, identify and consummate potential future acquisitions and obtain and retain our customers. In addition, our recent development and expansion will require additional experienced management and operations personnel. No assurance can be given that we will be able to identify and retain these employees. The loss of one or more of the services of our key personnel could increase our exposure to the other risks described in this section. We do not maintain key man insurance on any of our personnel.