

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

FLOTEK INDUSTRIES INC/CN/
Form 8-K/A
January 16, 2002

As filed with the Securities and Exchange Commission on January 16, 2002.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K/A

AMENDMENT No. 1 to CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)
OCTOBER 31, 2001

FLOTEK INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation)	1-132170 (Commission File Number)	77-0709256 (IRS Employer Identification No.)
---	---	--

7030 EMPIRE CENTRAL DRIVE, HOUSTON, TEXAS 77040
(Address of Principal Executive Offices)

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

NOT APPLICABLE
(Former name or former address, if changed since last report)

FLOTEK INDUSTRIES, INC.
TABLE OF CONTENTS
FOR
AMENDMENT NO. 1 TO CURRENT REPORT ON FORM 8-K

Item 2.	Acquisition and Disposition of Assets.....	3
Item 7.	Financial Statements and Exhibits.....	4
Signature.....		6

2

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

On October 31, 2001, Flotek Industries, Inc. (the "Company") completed the closing of its previously announced merger with Chemical & Equipment Specialties, Inc. ("CESI"). In connection with the merger, the Company issued 2,994,478 shares of common stock and assumed employee stock options and contingent share issuance obligations totaling 117,524 shares. All such share amounts reflect the 120 to 1 reverse stock split which was given effect at the

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

opening of trading on November 5, 2001. Also on that date, the Company began trading with a new stock ticker symbol, "FLTK", to reflect its change in status from a foreign-domiciled corporation to a Delaware corporation.

Simultaneously with the closing of the merger, all preferred shares of Flotek Industries, Inc. were converted to common stock at the rate of \$3.24 per share (post-split). Subsequent to August 15, 2001 and prior to the closing of the merger, warrants to purchase 536,141 shares of common stock at \$3.60 per share (post-split) were exercised, resulting in cash proceeds to the Company of \$1,930,106. Accordingly, the total outstanding common shares of the Company, after giving effect to the shares issued in the CESI merger and the reverse stock split (excluding adjustments for fractional shares to be paid in cash) is 4,850,696 shares.

CESI, headquartered in Duncan, Oklahoma, operates in two primary segments of the oilfield service industry; specialty chemicals and well service equipment manufacturing. The specialty chemical segment develops, manufactures and packages innovative cementing and stimulation chemicals, including the development of environmentally neutral chemicals. The well service equipment manufacturing segment manufactures, to exacting specifications and ISO 9001 standards, specialized cementing equipment (pumping and bulk material transport) and stimulation equipment (nitrogen, blending and pumping), as well as proprietary automated monitoring and control systems. CESI also designs and constructs automated bulk material handling and loading facilities for major oilfield service companies.

For accounting purposes, the merger has been treated under the purchase method of accounting as a "reverse" acquisition of Flotek Industries, Inc. by CESI. Accordingly, the financial statements of the Company will reflect the historical results of CESI and will incorporate the results of the current Flotek Industries, Inc. only for periods subsequent to the merger. The financial statements will also revalue the assets and liabilities of the current Flotek Industries, Inc. on the date of the merger in accordance with purchase accounting rules. The Company will report its results on a calendar year basis, effective with the current year ending December 31, 2001.

3

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Businesses Acquired.

Included in this Amendment No. 1 to Current Report on Form 8-K are the financial statements of Chemical & Equipment Specialties, Inc. 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.

Financial Statements of Chemical & Equipment Specialties, Inc.	
Report of Independent Public Accountants.....	F-1
Balance Sheets as of December 31, 2000 and September 30, 2001 (Unaudited)..	F-2
Statements of Operations for the Period from June 27, 2000 (Inception) Through December 31, 2000 and the Unaudited Nine Month Period Ended September 30, 2001.....	F-3
Statements of Changes in Stockholders' Equity for the Period from June 27, 2000 (Inception) Through December 31, 2000 and the Unaudited Nine Month Period Ended September 30, 2001.....	F-4

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Statements of Cash Flows for the Period from June 27, 2000 (Inception)	
Through December 31, 2000 and the Unaudited Nine Month Period	
Ended September 30, 2001.....	F-5
Notes to Financial Statements.....	F-6
Financial Statements of Esses, Inc.	
Report of Independent Public Accountants.....	F-15
Balance Sheets as of December 31, 1999 and 2000.....	F-16
Statements of Earnings for the Years Ended	
December 31, 1999 and 2000.....	F-17
Statements of Changes in Stockholders' Equity for the Years Ended	
December 31, 1999 and 2000.....	F-18
Statements of Cash Flows for the Years Ended	
December 31, 1999 and 2000.....	F-19
Notes to Financial Statements.....	F-20
Financial Statements of Plainsman Technology, Inc.	
Report of Independent Public Accountants.....	F-25
Balance Sheets as of December 31, 1999 and 2000.....	F-26
Statements of Operations and Comprehensive Loss for the	
Years Ended December 31, 1999 and 2000.....	F-27
Statements of Changes in Stockholders' Equity for the Years Ended	
December 31, 1999 and 2000.....	F-28
Statements of Cash Flows for the Years Ended	
December 31, 1999 and 2000.....	F-29
Notes to Financial Statements.....	F-30
Financial Statements of Neal's Technology, Inc.	
Report of Independent Public Accountants.....	F-35
Balance Sheet as of December 31, 2000.....	F-36
Notes to Financial Statement.....	F-37
4	
Financial Statements of Padko International, Inc.	
Report of Independent Public Accountant.....	F-40
Balance Sheets as of December 31, 1999 and 2000.....	F-41
Statements of Operations for the Years Ended	
December 31, 1999 and 2000.....	F-42
Statements of Changes in Stockholders' Equity (Deficit) for the	
Years Ended December 31, 1999 and 2000.....	F-43
Statements of Cash Flows for the Years Ended	
December 31, 1999 and 2000.....	F-44
Notes to Financial Statements.....	F-45
Financial Statements of Material Translogistics, Inc.	
Report of Independent Public Accountants.....	F-49
Statement of Earnings for the Period From April 5, 2000 (Inception)	
Through December 31, 2000.....	F-50
Notes to Financial Statement.....	F-51
(b) Pro Forma Financial Information.	
Unaudited Pro Forma Combined Financial Statements	
Basis of Presentation.....	P-1
Unaudited Pro Forma Combined Balance Sheet as of September 30, 2001.....	P-3
Unaudited Pro Forma Combined Statement of Operations for the	

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Year Ended December 31, 2000.....	P-4
Unaudited Pro Forma Combined Statement of Operations for the Year Ended December 31, 2000 for the CESI Entities.....	P-5
Unaudited Pro Forma Combined Statement of Operations for the Nine Month Period Ended September 30, 2001.....	P-6
Notes to Unaudited Pro Forma Combined Financial Statements.....	P-7

(c) Exhibits.

The following exhibits are filed herewith or incorporated by reference.

Exhibit Number -----	Description of Exhibit -----
2.1 *	Agreement and Plan of Reorganization by and between Flotek Industries Inc. and Chemical & Equipment Specialties, Inc.
99.1 *	Acquiror Shareholders Agreement
99.2 *	Acquiror Shareholder Lock-up Agreement

* Previously Filed

5

SIGNATURE

Pursuant to 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 hereunto duly authorized.

FLOTEK INDUSTRIES, INC.
Registrant

Date: January 16, 2002

By: /s/ Jerry D. Dumas, Sr.

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

6

Independent Auditors' Report

Board of Directors and Shareholders
Chemical and Equipment Specialties, Inc.
Duncan, Oklahoma

We have audited the accompanying Consolidated Balance Sheet of Chemical and Equipment Specialties, Inc. as of December 31, 2000, and the related Consolidated Statements of Operations, Changes in Shareholders' Equity and Cash Flows for the period June 27, 2000 (date of incorporation) through December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chemical and Equipment Specialties, Inc. as of December 31, 2000, and the results of its consolidated operations for the period June 27, 2000 (date of incorporation) through December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

WEINSTEIN SPIRA & COMPANY, P.C.
Houston, Texas
July 19, 2001

F-1

CHEMICAL AND EQUIPMENT SPECIALTIES, INC.
CONSOLIDATED BALANCE SHEETS

	Sept

ASSETS	
Current Assets	
Cash and cash equivalents	\$
Accounts receivable - net of allowance for doubtful accounts of \$196,783 in 2001	
Costs and estimated earnings in excess of billings on uncompleted contracts	
Inventories	
Prepaid expenses	

Total Current Assets	-----
Property and Equipment	
Land	
Buildings and leasehold improvements	
Machinery and equipment	
Computer equipment	
Furniture and fixtures	
Transportation	

Less: Accumulated depreciation	-----

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Other Assets

Goodwill, net of accumulated amortization of \$270,036 in 2001
 Loan fees, net of accumulated amortization of \$5,008 in 2001
 Patents
 Deposits

\$ 1
 =====

LIABILITIES

Current Liabilities

Short-term debt
 Capital lease obligations
 Accounts payable:
 Trade
 Shareholders
 Accrued expenses

\$

Total Current Liabilities

Long-Term Debt

SHAREHOLDERS' EQUITY

Preferred Stock, \$.01 par value, 2,500,000 shares authorized, no
 shares issued
 Common Stock, \$.01 par value, 5,000,000 shares authorized, 1,164,688
 shares issued and outstanding
 Additional Paid-in Capital
 Accumulated Deficit

\$ 1
 =====

See notes to financial statements.

F-2

CHEMICAL AND EQUIPMENT SPECIALTIES, INC.
 CONSOLIDATED STATEMENTS OF OPERATIONS

For the Nine Month Period Ended September 30, 2001	For the Period June 27, 2000 (Date of Incorporation) through December 31, 2000
-----	-----
(Unaudited)	

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Revenues	\$	10,100,060	
Cost of Revenues		7,063,038	
		-----	-----
Gross Margin		3,037,022	
Expenses:			
Selling, general and administrative		2,560,921	\$ 153,462
Depreciation and amortization		493,173	15,933
		-----	-----
		3,054,094	169,395
		-----	-----
Loss from Operations		(17,072)	(169,395)
Other Income (Expense)			
Interest expense		(282,955)	
Interest income		47,547	10,665
Other, net		20,435	
		-----	-----
		(214,973)	10,665
		-----	-----
Net Loss	\$	(232,045)	\$ (158,730)
		=====	=====

See notes to financial statements.

F-3

CHEMICAL AND EQUIPMENT SPECIALTIES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Nine Month Period Ended September 30, 2001 and
For the Period June 27, 2000 (Date of Incorporation) through December 31, 2000
(Information for the Nine Month Period Ended September 30, 2001 is unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit
	-----	-----	-----
Issuance of Common Stock	\$ 5,459	\$ 1,377,912	
Net Loss			\$ (158,730)
	-----	-----	-----
Balance - December 31, 2000	5,459	1,377,912	(158,730)
Stock issued for acquisitions	1,950	1,948,050	
Stock issued for cash	4,237	4,107,763	
Net Loss			(232,045)
	-----	-----	-----

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Balance - September 30, 2001 (Unaudited)	\$ 11,646	\$ 7,433,725	\$ (390,775)
	=====	=====	=====

See notes to financial statements.

F-4

CHEMICAL AND EQUIPMENT SPECIALTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For Nine Period Septem 20	----- (Unau
Cash Flows From Operating Activities		
Net loss	\$ (2	
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2	
Amortization of intangibles	2	
Imputed interest expense		
Bad debt expense	2	
Loss on sale of assets	(
Gain on sale of securities		
(Increase) Decrease in:		
Accounts receivable	(5	
Costs and earnings	(5	
Inventory	(4	
Prepays	(
Deposits and other	(
Federal income tax receivable		
Increase (Decrease) in:		
Accounts payable	6	
Billings in excess	(
Accrued expenses	(

Net Cash Used in Operating Activities	(5	

Cash Flows From Investing Activities		
Acquisition of subsidiaries, net	(6,9	
Capital expenditures	(1,1	
Proceeds from sales	2	
Payment of deferred acquisition costs	(2	

Net Cash Used in Investing Activities	(8,1	

Cash Flows From Financing Activities		
Payments of capital lease obligations	(
Payments of debt	(3	
Proceeds from debt	2,4	
Issuance of stock	4,1	
Proceeds from shareholder advances		
Net line proceeds	1,4	

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Net Cash Provided by Financing Activities	7,5
<hr/>	
Net Increase (Decrease) in Cash and Cash Equivalents	(1,1
Cash and Cash Equivalents - Beginning of Year	1,2
<hr/>	
Cash and Cash Equivalents - End of Year	\$ 1
<hr/>	
Supplemental Schedule of Noncash Investing and Financing Activities	
Land and building acquired under capital lease	\$ 6
<hr/>	
Supplemental Disclosures of Cash Flow Information	
Acquisition of Subsidiaries:	
Assets Acquired:	
Cash	\$ 2
Accounts receivable	1,1
Inventories	7
Costs and estimated earnings in excess of billings on uncompleted contracts	5
Prepaid expenses	
Federal income tax receivable	
Land	
Property and equipment	1,4
Investments in marketable securities	2
Goodwill	7,6
Other assets	
Debt	(4
Accounts payable	(8
Billings in excess of costs and estimated earnings on uncompleted contracts	(
Accrued liabilities	(
<hr/>	
Common stock issued	10,5
Promissory notes issued	(1,9
	(1,4
<hr/>	
Net Cash Used in Acquisition of Subsidiaries	\$ 7,1
<hr/>	

See notes to financial statements.

F-5

CHEMICAL AND EQUIPMENT SPECIALTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001 and December 31, 2000
(Information for the Nine Months Ended September 30, 2001 is unaudited)

Note 1 - Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements consist of Chemical and Equipment Specialties, Inc. and its wholly-owned subsidiaries which operate in two primary segments of the oilfield service industry: specialty chemicals and equipment manufacturing. The specialty chemical segment comprised of Plainsman Technology, Inc.; Esses, Inc. and Padko International, Inc. develop, manufacture and package innovative cementing and stimulation chemicals, including the development of environmentally neutral chemicals.

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

The equipment manufacturing segment comprised of Neal's Technology, Inc. and Material Translogistics, Inc. dba Gillespie Consulting Company manufacture specialized cementing equipment (pumping and bulk material transport) and stimulation equipment (nitrogen, blending and pumping) as well as proprietary automated monitoring and control systems. This segment also designs and constructs automated bulk material handling and loading facilities for major oilfield service companies.

Chemical and Equipment Specialties, Inc. was incorporated June 27, 2000, and the operations for the period ended September 30, 2000 were immaterial.

Revenue Recognition

The specialty chemical segment recognizes revenues at the date of delivery, and accounts receivable are recorded at that time. Earnings are charged with a provision for doubtful accounts based on a current review of collectibility of accounts.

The equipment manufacturing segment recognizes revenues from manufacturing contracts under the percentage-of-completion method of accounting, generally in the ratio in which costs incurred bear to total estimated costs at completion. All known or anticipated losses on contracts are recognized in full when such amount becomes apparent. Contract costs include all direct labor and material costs and those indirect costs related to job performance. General and administrative costs are charged to expense as incurred. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The asset, costs and estimated earnings in excess of billings on uncompleted contracts, represents revenues recognized in excess of amounts billed. The liability, billings in excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenues recognized.

Billings are rendered under terms of customer contracts. Accounts receivable are recorded at that time. Earnings are charged with a provision for doubtful accounts receivable based on collection experience and current review of collectibility of accounts. Accounts deemed uncollectible are applied against the allowance for doubtful accounts.

F-6

CHEMICAL AND EQUIPMENT SPECIALTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2001 and December 31, 2000

(Information for the Nine Months Ended September 30, 2001 is unaudited)

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. As of September 30, 2001, the Company had deposits in excess of federally insured limits.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined under the first-in, first-out or weighted average methods. Finished goods inventory include raw materials, direct labor and production overhead.

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Property and Equipment

Property and equipment are presented at cost. The cost of ordinary maintenance and repairs is charged to operations, while replacements are capitalized. Depreciation is computed at rates considered sufficient to amortize the cost of the assets over their estimated useful lives using the straight-line method. Depreciation is based upon the following estimated useful lives:

Buildings and improvements	20	years
Machinery and equipment	3 - 5	years
Computer equipment	5	years
Furniture and fixtures	5	years
Transportation	3	years

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Goodwill

Goodwill arises from the acquisition of assets prior to June 30, 2001, at an amount in excess of their fair market value. Amortization is computed by the straight-line method over the estimated useful life of the asset of 20 years. (See new accounting pronouncements.)

F-7

CHEMICAL AND EQUIPMENT SPECIALTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2001 and December 31, 2000

(Information for the Nine Months Ended September 30, 2001 is unaudited)

Income Taxes

The Company will file a consolidated federal income tax return. Income taxes are computed based upon rates prevailing at year end.

The Company provides deferred income taxes for the expected future tax consequences based upon differences between the financial reporting and tax bases of assets and liabilities and are based on enacted tax laws and rates.

Start-Up Costs

Start-up costs are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and certain assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

differ from those estimates.

Interim Financial Statements (Unaudited)

In the opinion of management, the unaudited interim financial statements at September 30, 2001, and for the nine months then ended, include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations, shareholders' equity and cash flows for the interim period. The combined results of operations and cash flows for the nine months ended September 30, 2001 are not necessarily indicative of the results which would be expected for a full year.

F-8

CHEMICAL AND EQUIPMENT SPECIALTIES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 September 30, 2001 and December 31, 2000
 (Information for the Nine Months Ended September 30, 2001 is unaudited)

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The Company does not believe that the prospective adoption of this standard will have a material impact on its consolidated financial statements. SFAS No. 142 changes the accounting for goodwill and certain other intangible assets from an amortization method to an impairment only approach. Due to the adoption of SFAS No. 142, the Company will not amortize goodwill beginning in fiscal 2002. The goodwill amortization expense during the nine months ended September 30, 2001, was \$270,036. The Company will complete its initial impairment assessment as required by SFAS No. 142 by December 31, 2002. The Company does not anticipate this assessment will result in a material write down during fiscal 2002.

Note 2 - Acquisitions

Effective January 1, 2001, the Company acquired the following entities in purchase transactions:

Company	Consideration Paid for Acquired Companies		
	Cash	Promissory Notes	Common Stock
Esses, Inc.	\$ 4,000,000	\$ 1,000,000	\$ 1,000,000
Plainsman Technology, Inc.	1,850,000		250,000
Neal's Technology, Inc.	500,000	400,000	250,000
Padko International, Inc.	237,600		250,000
	\$ 6,587,600	\$ 1,400,000	\$ 1,750,000

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

In June, 2001, the Company entered into an agreement and plan of reorganization (the Agreement) with Material Translogistics, Inc. dba Gillespie Consulting Company (Gillespie). At the closing of the Agreement, all issued and outstanding common stock of Gillespie was exchanged for 20,000 shares of common stock and the right to receive an additional 20,000 shares upon the satisfaction of certain contingencies.

F-9

CHEMICAL AND EQUIPMENT SPECIALTIES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 September 30, 2001 and December 31, 2000
 (Information for the Nine Months Ended September 30, 2001 is unaudited)

As part of the Agreement, Gillespie also sold to the Company certain intangible assets, including customer lists, business records and contract rights, in consideration of \$600,000. The Company did not purchase any other assets owned or leased by Gillespie, and did not assume any liability of Gillespie.

The common stock in these transactions was valued at \$10 per share.

The above transactions generated approximately \$7,670,000 in goodwill.

The following unaudited proforma information represents the combined results of operations as if the acquisitions had been combined as of January 1, 2000:

Revenues		\$ 8,704,000
		=====
Net income		\$ 383,000
		=====

The proforma information is not necessarily indicative of operating results that would have occurred if the acquisition had been consummated as of January 1, 2000, nor is it necessarily indicative of future operating results. The actual results of operations of an acquired company are included in these consolidated financial statements only from the date of acquisition.

Note 3 - Inventories

Inventories consisted of the following at September 30, 2001:

Raw materials		\$ 537,418
Finished goods		666,664

		\$ 1,204,082
		=====

Note 4 - Construction Contracts in Progress

Information regarding contracts in progress at September 30, 2001, is as follows:

Costs incurred on uncompleted contracts		\$ 2,244,777
Estimated earnings on uncompleted contracts		138,059

		2,382,836
Less: Billings to date		1,236,730

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

\$ 1,146,106
 =====

F-10

CHEMICAL AND EQUIPMENT SPECIALTIES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 September 30, 2001 and December 31, 2000
 (Information for the Nine Months Ended September 30, 2001 is unaudited)

The Company has a backlog of approximately \$600,000 at September 30, 2001.

Note 5 - Capital Lease Obligations

Effective March 2001, the Company entered into a lease and purchase agreement with a third party for the purchase of land and buildings. The purchase of the property will occur upon completion of an initial lease term of 12 months. Lease payments during the initial term are \$3,000/month. The total purchase price of the property is \$675,000. Lease payments made during the initial lease term will be applied towards the purchase price, which will be payable at the closing in cash.

Future minimum lease payments under the capital lease, together with the present value of the minimum lease payments at September 30, 2001, are as follows:

Total minimum lease payments year ending September 30, 2002	\$654,000
Less: amount representing interest	(22,175)

Present value of minimum lease payments	\$631,825
	=====

Assets recorded under the capital lease consist of:

Land	\$ 60,000
Buildings	570,794

	\$ 630,794
	=====

Note 6 - Short-Term Debt

Short-term debt at September 30, 2001, consists of the following:

\$1,414,020 Legacy Bank revolving line-of-credit, bearing interest at the prime rate plus 1%, due in May, 2002 (see Note 7)	\$ 1,414,020
Current portion of long-term debt	521,552

	\$ 1,935,572
	=====

Note 7 - Long-Term Debt

Long-term debt at September 30, 2001, consists of the following:

Notes payable to shareholders, unsecured, interest at 9%, payable quarterly beginning March, 2001, principal due in five annual installments of \$200,000 beginning January, 2002 until December, 2005	\$ 1,000,000
--	--------------

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Note payable to Legacy Bank, bearing interest at the prime rate plus 1%, payable in monthly installments of \$45,179 including interest, due in January, 2008 2,520,527

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 92,061

F-11

CHEMICAL AND EQUIPMENT SPECIALTIES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 September 30, 2001 and December 31, 2000
 (Information for the Nine Months Ended September 30, 2001 is unaudited)

Note payable to Legacy Bank, interest at the prime rate plus 1%, due in September, 2004	502,550

	4,115,138
Less: Current maturities	521,552

	\$ 3,593,586
	=====

The notes payable to Legacy Bank are secured by all the assets of the Company.

The following is a schedule of future maturities of long-term debt:

Year Ending September 30,	

2002	\$ 521,552
2003	554,443
2004	1,093,280
2005	630,765
2006	664,476
Thereafter	650,622

	\$4,115,138
	=====

Note 8 - Federal Income Tax

A reconciliation of the statutory federal income tax rate to the effective income tax rate is as follows:

	September 30, 2001	December 31, 2000
	-----	-----
Federal income tax (benefit) at 34%	\$ (71,405)	\$ (53,968)
Nondeductible items	8,610	1,132
Other	(205)	(164)
Change in valuation allowance	63,000	53,000
	-----	-----
	\$ 0	\$ 0
	=====	=====

F-12

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

CHEMICAL AND EQUIPMENT SPECIALTIES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 September 30, 2001 and December 31, 2000

(Information for the Nine Months Ended September 30, 2001 is unaudited)

The components of deferred taxes are as follows:

Allowance for doubtful accounts	\$	67,000	
Net operating loss carryforward		39,000	\$ 50,000
Book depreciation in excess of tax		10,000	3,000
		-----	-----
		116,000	53,000
		-----	=====
Valuation allowance		(116,000)	53,000)
		-----	-----
	\$	0	\$ 0
		=====	=====

At December 31, 2000, the Company had net operating loss carryforwards available to offset future taxable income of approximately \$146,000, expiring in 2010. Under federal tax law, the amount and availability of loss carryforwards are subject to a variety of interpretations and restrictive tests applicable to the Company. The utilization of such carryforwards could be limited or effectively lost upon certain changes in ownership. Accordingly, while the Company believes certain loss carryforwards are available to it, no assurance can be given concerning such loss carryforwards or whether such loss carryforwards will be available in the future. An allowance has been recorded to fully offset the net deferred tax asset.

Note 9 - Related Party Transactions

The Company has accounts payable to shareholders totaling \$14,919 and \$164,410 at September 30, 2001 and 2000, respectively.

As further described in Note 7 to these financial statements, the Company has notes payable to shareholders of \$1,000,000 at September 30, 2001.

Note 10 - Operating Leases

The Company leases vehicles from a third party.

Future minimum lease payments on these leases are as follows:

Year Ending September 30,	

2002	\$ 15,460
2003	5,787

	\$ 21,247
	=====

Total rent expense for these vehicles was approximately \$12,000 for the nine months ended September 30, 2001.

F-13

NOTE 11 - SEGMENT INFORMATION

The Company has two reportable segments: specialty chemicals and equipment

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

manufacturing. The specialty chemical segment comprised of Plainsman Technology, Inc.; Esses, Inc. and Padko International, Inc. develop, manufacture and package innovative cementing and stimulation chemicals, including the development of environmentally neutral chemicals. The equipment manufacturing segment comprised of Neal's Technology, Inc. and Material Translogistics, Inc. dba Gillespie Consulting Company manufacture specialized cementing equipment (pumping and bulk material transport) and stimulation equipment (nitrogen, blending and pumping) as well as proprietary automated monitoring and control systems. This segment also designs and constructs automated bulk material handling and loading facilities for major oilfield service companies.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately, because each business requires different technology and marketing strategies.

The Company operates primarily in the United States. As of September 30, 2001, and for the nine months then ended, segment information is as follows:

	For the Nine Months Ended September 30, 2001			
	Specialty Chemicals	Equipment Manufacturing	Other	TOTAL
Net sales to external customers	\$6,355,562	\$3,744,498		\$10,100,060
Income (Loss) from Operations	1,087,724	(804,113)	\$ (300,683)	(17,072)
Depreciation and amortization	384,213	59,722	49,238	493,173
Total Assets	9,953,344	4,083,236	828,454	14,865,034
Capital expenditures	670,878	1,112,857	4,825	1,788,560

F-14

INDEPENDENT AUDITORS' REPORT

Board of Directors
Esses, Inc.
Duncan, Oklahoma

We have audited the accompanying Balance Sheets of Esses, Inc. as of December 31, 2000 and 1999, and the related Statements of Earnings, Changes in Shareholders' Equity and Cash Flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

LIABILITIES

CURRENT LIABILITIES

Current portion of long-term debt	\$ 32,985	\$ 50,9
Line-of-credit	189,411	172,5
Accounts payable	283,063	185,4
Accrued expenses	8,127	80,1
	-----	-----
Total Current Liabilities	513,586	489,0
	-----	-----
LONG-TERM DEBT	27,406	60,6
	-----	-----
	540,992	549,7
	-----	-----

SHAREHOLDERS' EQUITY

COMMON STOCK, \$1 par value, 50,000 shares authorized, 30,000 shares issued and outstanding	30,000	30,0
RETAINED EARNINGS	703,672	154,7
	-----	-----
	733,672	184,7
	-----	-----
	\$1,274,664	\$734,5
	=====	=====

See notes to financial statements.

F-16

ESSES, INC.
STATEMENTS OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31,

	2000	PERCENT TO REVENUES	1999	PERCENT REVENUE
	AMOUNT		AMOUNT	
	-----	-----	-----	-----
REVENUES	\$3,755,748	100.0%	\$1,921,661	100.0%
Cost of Revenues	2,153,039	57.3	1,237,304	64.4
	-----	-----	-----	-----
GROSS MARGIN	1,602,709	42.7	684,357	35.6
Operating Expenses	701,673	18.7	450,173	23.4
	-----	-----	-----	-----
OPERATING INCOME	901,036	24.0	234,184	12.2
	-----	-----	-----	-----

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

OTHER INCOME (EXPENSE)				
Interest expense	(22,195)	(.6)	(18,169)	(.9)
Interest income	44		43	
	(22,151)	(.6)	(18,126)	(.9)
	-----	-----	-----	-----
NET EARNINGS	\$ 878,885	23.4%	\$ 216,058	11.3%
	=====	=====	=====	=====

See notes to financial statements.

F-17

ESSES, INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	Common Stock	Retained Earnings
	-----	-----
Balance - December 31, 1998	\$30,000	\$ 67,208
Distributions		(128,479)
Net Earnings		216,058
	-----	-----
Balance - December 31, 1999	30,000	154,787
Distributions		(330,000)
Net Earnings		878,885
	-----	-----
Balance - December 31, 2000	\$30,000	\$ 703,672
	=====	=====

See notes to financial statements.

F-18

ESSES, INC.
STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED
DECEMBER 31,

2000

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

CASH FLOWS FROM OPERATING ACTIVITIES	
Net earnings	\$ 878,885
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation	62,515
(Increase) Decrease in:	
Accounts receivable	(301,940)
Inventory	(168,512)
Prepaid expenses	4,885
Deposits	(1,794)
Increase (Decrease) in:	
Accounts payable	97,613
Accrued expenses	(72,005)

Net Cash Provided By Operating Activities	499,647

CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	(190,068)

Net Cash Used in Investing Activities	(190,068)

CASH FLOWS FROM FINANCING ACTIVITIES	
Dividends paid	(330,000)
Proceeds from debt	25,174
Payments on debt	(76,358)
Net line-of-credit proceeds	16,833

Net Cash Used in Financing Activities	(364,351)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(54,772)
Cash and Cash Equivalents - Beginning of Year	69,082

CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 14,310
	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash paid during the year for interest	\$ 20,744
	=====

See notes to financial statements.

F-19

ESSES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999

NOTE 1 - ACCOUNTING POLICIES

Esses, Inc. (the Company) maintains its accounts on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accounting principles followed by the Company and the methods of applying those principles which materially affect the determination of financial position, results of operations, and cash flows are summarized below:

DESCRIPTION OF BUSINESS

The Company is primarily engaged in purchasing, manufacturing and selling dry and liquid stimulation additives. The Company distributes these additives to

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

the oil and gas service industry throughout the United States of America.

INCOME RECOGNITION

Revenues are recognized at the date of delivery, and accounts receivable are recorded at that time. Earnings are charged with a provision for doubtful accounts based on a current review of collectibility of accounts. There was no allowance for doubtful accounts at December 31, 2000 and 1999.

CASH AND CASH EQUIVALENTS

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. As of December 31, 2000, the Company had deposits in excess of federally insured limits.

INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined under the weighted average method. Finished goods inventory include raw materials, direct labor and production overhead.

PROPERTY AND EQUIPMENT

Property and equipment are presented at cost. The cost of ordinary maintenance and repairs is charged to operations, while replacements are capitalized. Depreciation is computed at rates considered sufficient to amortize the cost of the assets over their estimated useful lives using the straight-line method for building and improvements and double declining method for the remainder. Depreciation is based upon the following estimated useful lives:

Building and improvements	20 years
Machinery and equipment	3-5 years
Furniture and fixtures	5 years
Transportation	3 years

F-20

ESSES, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000 AND 1999

FEDERAL INCOME TAX

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, net income or losses are reportable for tax purposes by the shareholders. Accordingly, no federal income taxes are included in the accompanying financial statements.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and certain assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - INVENTORY

Inventory as of December 31, 2000 and 1999, consisted of the following:

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

	2000 ----	1999 ----
Raw materials	\$243,363	\$121,471
Finished goods	113,449	66,829
	-----	-----
	\$356,812	\$188,300
	=====	=====

NOTE 3 - LINE-OF-CREDIT

The line-of-credit at December 31, 2000 and 1999, is as follows:

	2000 ----	1999 ----
\$250,035 Line-of-credit, secured by accounts receivable, inventory, contract rights, general intangibles and property and equipment, bearing interest at prime plus 1.00%, due November, 2001	\$189,411 =====	\$172,578 =====

In connection with the revolving line-of-credit, the Company has entered into a loan agreement which contains certain restrictive covenants. As of December 31, 2000, the Company was in compliance with these covenants.

F-21

ESSES, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000 AND 1999

NOTE 4 - LONG-TERM DEBT

Long-term debt as of December 31, 2000 and 1999, is as follows:

	2000 -----	1999 -----
Note payable to bank, secured by real estate, payable in monthly installments of \$795, including interest at 8.75%, due June, 2003	\$21,367	
Note payable to bank, secured by vehicle, payable in monthly installments of \$655, including interest at 7.5%, due November, 2003	20,533	\$ 26,5
Note payable to bank, secured by substantially all assets of the Company, bearing interest at 9.25%, principle due at maturity in November, 2000		20,0
Note payable to bank, secured by substantially all assets of the Company, payable in monthly installments of \$1,360, including interest at 10%, due December, 2001	15,241	28,3

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Unsecured promissory note payable, due in monthly installments of \$472, including interest at 10%, due September, 2001	3,250	8,6
Note payable to related party, secured by real estate, payable in monthly principal installments of \$685, including interest at 7%, due November, 2003, principal paid in entirety in 2000	----- 60,391	----- 28,0
Less: Current maturities	32,985	50,9
	----- \$27,406	----- \$ 60,6
	=====	=====

F-22

ESSES, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000 AND 1999

Future maturities of long-term debt are as follows:

Year Ending December 31,	

2001	\$32,985
2002	15,745
2003	11,661

	\$60,391
	=====

NOTE 5 - OPERATING LEASES

The Company leases vehicles from a third party.

Future minimum lease payments on these leases are as follows:

Year Ending December 31,	

2001	\$15,460
2002	7,604
2003	1,267

	\$24,331
	=====

Auto lease expense for the years ended December 31, 2000 and 1999, totaled \$15,474 and \$7,048, respectively.

NOTE 6 - SIGNIFICANT CUSTOMERS

During the year ended December 31, 2000, the Company sold chemicals to three customers during the normal course of business representing 34%, 29% and 11%, respectively, of the Company's sales revenue for the year. At December 31,

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

2000, the Company had receivables from these customers representing approximately 50%, 23% and 11%, respectively, of the Company's trade accounts receivable.

During the year ended December 31, 1999, the Company sold chemicals to three customers during the normal course of business representing 29%, 27% and 19%, respectively, of the Company's sales revenue for the year. At December 31, 1999, the Company had receivables from these three customers representing approximately 49%, 19% and 0%, respectively, of the Company's trade accounts receivable.

F-23

ESSES, INC. NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2000 AND 1999

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Company has a simplified employee pension plan for all eligible employees. The Company may elect to make contributions to individual retirement accounts for eligible employees up to a maximum of 15% of their income. Company contributions to the plan for the year ended December 31, 2000 were \$29,625.

NOTE 8 - SUBSEQUENT EVENT

The shareholders of the Company entered into a stock purchase agreement with Chemical & Equipment Specialties, Inc. (CESI), an Oklahoma corporation, to sell all of the Company's common stock to CESI, effective January 2001. The purchase price of the stock consisted of \$1,000,000 in notes payable to the shareholders, and 100,000 shares of CESI's common stock. In addition, the Company agreed to sell all of its intangible assets for \$4,000,000.

F-24

INDEPENDENT AUDITORS' REPORT

Board of Directors
Plainsman Technology, Inc.
Marlow, Oklahoma

We have audited the accompanying Balance Sheets of Plainsman Technology, Inc. as of December 31, 2000 and 1999, and the related Statements of Operations and Comprehensive Loss, Changes in Shareholders' Equity and Cash Flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Plainsman Technology, Inc. as of December 31, 2000 and 1999, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

WEINSTEIN SPIRA & COMPANY, P.C.
Houston, Texas
June 29, 2001

F-25

PLAINSMAN TECHNOLOGY, INC. BALANCE SHEETS

		DECEMBER 31,	
		2000	

ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$	86,120	\$
Accounts receivable		429,257	
Inventories		342,104	
Prepaid expenses		500	

Total Current Assets		857,981	

PROPERTY, PLANT AND EQUIPMENT			
Land		25,769	
Buildings and improvements		406,418	
Plant equipment		209,618	
Laboratory equipment		128,971	
Furniture and fixtures		165,710	
Transportation equipment		238,645	

		1,175,131	
Less: Accumulated depreciation		931,841	

		243,290	
INVESTMENTS IN MARKETABLE SECURITIES		204,573	
OTHER ASSETS		8,049	

		\$1,313,893	\$
		=====	=====
LIABILITIES			
CURRENT LIABILITIES			
Current portion of long-term debt	\$	53,429	
Accounts payable		300,578	
Accrued liabilities		40,832	

Total Current Liabilities		394,839	
LONG-TERM DEBT			

		394,839	

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

SHAREHOLDERS' EQUITY	
COMMON STOCK, par value \$1 per share, 100,000 shares authorized and issued	100,000
PAID-IN CAPITAL	136,146
RETAINED EARNINGS	1,061,862
ACCUMULATED OTHER COMPREHENSIVE INCOME	38,594
Less: Treasury stock - at cost, 54,569 shares	(417,548)

	919,054

	\$1,313,893
	=====

See notes to financial statements.

F-26

PLAINSMAN TECHNOLOGY, INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	FOR THE YEAR ENDED December 31,
	----- 2000 -----
SALES	\$2,768,478
Cost of Goods Sold	1,619,863

GROSS PROFIT	1,148,615
Operating Expenses	1,177,741

LOSS FROM OPERATIONS	(29,126)

OTHER INCOME (EXPENSE)	
Dividend income	
Interest expense	(6,755)
Gain (Loss) on sale of assets	(187)

	(6,942)

NET LOSS	(36,068)
OTHER COMPREHENSIVE INCOME	
Unrealized holding gains arising during period	1,556
Less: Reclassification adjustment for gains included in net income	(796)

	760

COMPREHENSIVE LOSS	\$ (35,308)
	=====

See notes to financial statements.

F-27

PLAINSMAN TECHNOLOGY, INC.

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME
	-----	-----	-----	-----
Balance - December 31, 1998	\$100,000	\$136,146	\$1,380,045	\$37,000
Net Loss			(282,115)	
Change in Unrealized Net Gains on Marketable Securities				
	-----	-----	-----	-----
Balance - December 31, 1999	100,000	136,146	1,097,930	37,000
Net Loss			(36,068)	
Change in Unrealized Net Gains on Marketable Securities				
	-----	-----	-----	-----
Balance - December 31, 2000	\$100,000	\$136,146	\$1,061,862	\$38,000
	=====	=====	=====	=====

See notes to financial statements.

F-28

PLAINSMAN TECHNOLOGY, INC.
STATEMENTS OF CASH FLOWS

	FOR THE YEAR ENDED DECEMBER 31,

	2000

RECONCILIATION OF NET LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:	
Net loss	\$ (36,068)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	56,216
Bad debt expense	
(Gain) Loss on sale of assets	187
(Increase) Decrease in:	
Accounts receivable	(100,593)
Inventory	24,925
Prepays	6,254
Increase in:	
Accounts payable	69,588
Accrued expenses	30,104
Other assets	

Net Cash Provided by (Used in) Operating Activities	50,613

CASH FLOWS FROM INVESTING ACTIVITIES	

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Acquisition of property and equipment	(6,563)
Proceeds from sale of assets	66,891
Purchases of marketable securities	(1,365)

Net Cash Provided by Investing Activities	58,963

CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from debt	(61,457)
Payments of debt	20,000

Net Cash Provided by (Used in) Financing Activities	(41,457)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(68,119)
Cash and Cash Equivalents - Beginning of Year	18,001

CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 86,120
	=====
NONCASH INVESTING AND FINANCING ACTIVITIES	
Unrealized gain on marketable securities	\$ 760
	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash Paid for Interest	\$ 6,755
	=====

See notes to financial statements.

F-29

PLAINSMAN TECHNOLOGY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999

NOTE 1 - ACCOUNTING POLICIES

Plainsman Technology, Inc. (the Company) maintains its accounts on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Accounting principles followed by the Company and the methods of applying those principles which materially affect the determination of financial position, results of operations and cash flows are summarized as follows:

DESCRIPTION OF BUSINESS

The Company is primarily engaged in purchasing, manufacturing and selling dry and liquid cementing and stimulation additives. The Company distributes these additives to the oil and gas service industry throughout the United States of America.

INCOME RECOGNITION

Revenues are recognized at the date of delivery and accounts receivable are recorded at that time. Earnings are charged with a provision for doubtful accounts based on a current review of collectibility of accounts. There was no allowance for doubtful accounts at December 31, 2000 and 1999.

CASH AND CASH EQUIVALENTS

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. As of December 31, 2000 the Company had deposits in excess of federally insured limits.

INVENTORIES

Inventories are valued at the lower of average cost or market. Cost is determined under the weighted average method. Finished goods inventory include raw materials, direct labor and production overhead.

INVESTMENTS IN MARKETABLE SECURITIES

The Company accounts for equity securities as available-for-sale securities and reports them at fair value, principally determined by the closing price on independent stock exchanges, with unrealized gains and losses being reported as a component of accumulated other comprehensive income.

F-30

PLAINSMAN TECHNOLOGY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000 AND 1999

PROPERTY AND EQUIPMENT

Property and equipment are presented at cost. Depreciation is computed at rates considered sufficient to amortize the cost of the assets over their estimated useful lives, using the straight-line and declining-balance methods. Depreciation is based upon the following estimated useful lives:

Buildings and improvements	20 years
Equipment	3-5 years
Furniture and fixtures	5 years
Transportation equipment	3 years

The cost of ordinary maintenance and repairs is charged to operations.

FEDERAL INCOME TAX

Federal income tax expense in these statements is computed at prevailing tax rates.

The Company provides deferred income taxes for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of assets and liabilities.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - INVENTORIES

Inventories consist of the following at December 31, 2000 and 1999:

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

	2000 ----	1999 ----
Raw materials	\$203,965	\$169,522
Finished goods	138,139	197,507
	-----	-----
	\$342,104	\$367,029
	=====	=====

F-31

PLAINSMAN TECHNOLOGY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000 AND 1999

NOTE 3 - MARKETABLE SECURITIES

The gross realized proceeds from the sale of investments were \$66,891 and \$131,636 for the years ended December 31, 2000 and 1999, respectively.

The gross unrealized gains on available-for-sale securities were \$26,544 and \$9,185 for the years ended December 31, 2000 and 1999, respectively.

The gross unrealized losses on available-for-sale securities were \$25,784 and \$8,400 for the years ended December 31, 2000 and 1999, respectively.

NOTE 4 - LONG-TERM DEBT

Long-term debt as of December 31, 2000 and 1999, is as follows:

	2000 -----	1999 -----
\$100,000 Bank revolving line-of-credit, secured by land, accounts receivable, inventory and equipment, bearing interest at 10.5%, interest payable quarterly, due September, 2001	\$41,609	\$44,089
Note payable to bank, secured by land, accounts receivable, inventory and equipment, payable in monthly installments of \$1,351 including interest at 10.5%, due on demand or if no demand is made, in September, 2001	11,820	26,227
Note payable to bank, secured by vehicle, payable in monthly principal installments of \$787 including interest at prime plus 2%, due in September, 2000		7,028
Note payable to bank, secured by vehicle, payable in monthly principal installments of \$494 including interest at prime plus 2%, due in October, 2000		6,252
Note payable to bank, secured by vehicle, payable in monthly principal installments of \$375 including interest at 8.5%, due in October, 2002		11,290
	-----	-----
	53,429	94,886
Less: Current portion	53,429	87,277
	-----	-----
	\$ 0	\$ 7,609
	=====	=====

F-32

PLAINSMAN TECHNOLOGY, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000 AND 1999

NOTE 5 - RELATED PARTY TRANSACTIONS

The Company leases two warehouse facilities. One of the facilities is leased from a majority shareholder. Both leases are on a month-to-month basis and have been classified as operating leases. Total rent expense was \$20,280 for the years ended December 31, 2000 and 1999. Rent expense attributable to the related party totaled \$11,280 for the years ended December 31, 2000 and 1999.

NOTE 6 - FEDERAL INCOME TAXES

A reconciliation of the statutory federal income tax rate to the effective income tax rate is as follows:

	DECEMBER 31,	
	2000	1999
Federal income tax (benefit) at 34%	\$ (12,263)	\$ 12,263
Nondeductible items	2,263	2,263
Nontaxable income	10,000	10,000
Change in valuation allowance	\$ 0	\$ 0
	=====	=====

The components of the deferred tax asset are as follows:

	DECEMBER 31,	
	2000	1999
Net operating loss carryforward	\$ 150,000	\$ 150,000
Valuation allowance	(150,000)	(150,000)
	\$ 0	\$ 0
	=====	=====

At December 31, 2000, the Company had net operating loss carryforwards available to offset future taxable income of approximately \$444,000. Under federal tax law, the amount and availability of loss carryforwards (and certain other tax attributes) are subject to a variety of interpretations and restrictive tests applicable to the Company. The utilization of such carryforwards could be limited, based upon certain changes in ownership. An allowance has been recorded to properly value the deferred tax asset at December 31, 2000 and 1999.

NOTE 7 - SIGNIFICANT CUSTOMERS

During the year ended December 31, 2000, the Company had sales of approximately

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

\$688,000 to two customers in the normal course of business, representing 25% of the Company's sales revenue for the period. At December 31, 2000, the Company had receivables from these two customers in the approximate amount of \$105,000, representing 24% of the Company's trade accounts receivable.

F-33

PLAINSMAN TECHNOLOGY, INC. NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2000 AND 1999

During the year ended December 31, 1999, the Company had sales of approximately \$423,000 to two customers in the normal course of business, representing 25% of the Company's sales revenue for the period. At December 31, 1999, the Company had receivables from these two customers in the approximate amount of \$85,000, representing 26% of the Company's trade accounts receivable.

NOTE 8 - EMPLOYEE BENEFIT PLAN

The Company has an employee benefit plan under Section 401(k) of the Internal Revenue Code for all eligible employees. All eligible employees are permitted to defer compensation up to a maximum of 15% of their income, subject to limitations imposed by the Internal Revenue Service. The Company makes contributions which amount to 50% of employees' contributions, up to a maximum of 5% of eligible compensation. The Company contributed \$16,110 and \$14,660 for 2000 and 1999, respectively.

NOTE 9 - SUBSEQUENT EVENT

In January 2001, the Company entered into a stock acquisition agreement (the Agreement) with Chemical and Equipment Specialties, Inc. (CESI), an Oklahoma corporation. At the closing of the Agreement, CESI acquired all of the common stock of the Company in consideration of \$1,850,000 cash and 25,000 shares of CESI stock.

F-34

INDEPENDENT AUDITORS' REPORT

Board of Directors
Neal's Technology, Inc.
Duncan, Oklahoma

We have audited the accompanying Balance Sheet of Neal's Technology, Inc. as of December 31, 2000. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Neal's Technology, Inc. as of December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

WEINSTEIN SPIRA & COMPANY, P.C.
Houston, Texas
September 28, 2001

F-35

NEAL'S TECHNOLOGY, INC.
BALANCE SHEET
DECEMBER 31, 2000

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		\$121,0
Accounts receivable		4
Inventories		13,6
Costs and estimated earnings in excess of billings on uncompleted contracts		566,2
Prepaid expenses		5,8

Total Current Assets		707,2
PROPERTY AND EQUIPMENT		
Machinery and equipment	\$174,738	
Furniture and office equipment	43,293	
Leasehold improvements	53,652	

	271,683	
Less: Accumulated depreciation	156,872	114,8

		\$822,0
		=====
LIABILITIES		
CURRENT LIABILITIES		
Notes payable		\$174,8
Accounts payable		247,0
Billings in excess of costs and estimated earnings on uncompleted contracts		38,5
Accrued expenses		4,9

Total Current Liabilities		465,2
SHAREHOLDERS' EQUITY		
COMMON STOCK - no par value, 50,000 shares authorized, 10,000 shares issued and outstanding	\$ 10,000	
CONTRIBUTED CAPITAL	50,000	
RETAINED EARNINGS	296,723	356,7

		\$822,0
		=====

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

See notes to financial statement.

F-36

NEAL'S TECHNOLOGY, INC. NOTES TO FINANCIAL STATEMENT DECEMBER 31, 2000

NOTE 1 - ACCOUNTING POLICIES

Neal's Technology, Inc. (the Company) maintains its accounts on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accounting principles followed by the Company and the methods of applying those principles which materially affect the determination of financial position are summarized below:

DESCRIPTION OF BUSINESS

Neal's Technology, Inc. has contracts to manufacture, to exacting specifications, specialized cementing equipment (pumping and bulk material transport) and stimulation equipment (nitrogen, blending and pumping). Also manufactured are proprietary automated monitoring and control systems, both vehicle mounted and hand portable. Equipment design and automation are performed in-house. Neal's Technology is an ISO 9001 certified shop.

REVENUE RECOGNITION FROM MANUFACTURING CONTRACTS

Revenues from manufacturing contracts are recognized under the percentage-of-completion method of accounting, generally in the ratio in which costs incurred bear to total estimated costs at completion. All known or anticipated losses on contracts are recognized in full when such amount becomes apparent.

Contract costs include all direct labor and material costs and those indirect costs related to job performance. General and administrative costs are charged to expense as incurred.

Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The asset, costs and estimated earnings in excess of billings on uncompleted contracts, represents revenues recognized in excess of amounts billed. The liability, billings in excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenues recognized.

Billings are rendered under terms of customer contracts. Accounts receivable are recorded at that time. Earnings are charged with a provision for doubtful accounts receivable based on collection experience and current review of collectibility of accounts. Accounts deemed uncollectible are applied against the allowance for doubtful accounts. There was no such allowance recorded at December 31, 2000.

INVENTORY

Inventory, which consists of raw materials and supplies used in the manufacturing process, is carried at the lower of cost (as determined by the first-in, first-out method) or market.

NEAL'S TECHNOLOGY, INC.
 NOTES TO FINANCIAL STATEMENT (CONTINUED)
 DECEMBER 31, 2000

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is computed at rates considered sufficient to amortize the costs of the assets over their estimated useful lives using the straight-line method. Depreciation is based on the following estimated useful lives:

Machinery and equipment	3-5 years
Furniture and office equipment	5 years
Leasehold improvements	20 years

FEDERAL INCOME TAX

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, net income or losses are reportable for tax purposes by the shareholders. Accordingly, no federal income taxes are included in the accompanying financial statements.

CASH AND CASH EQUIVALENTS

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. As of December 31, 2000, the Company had deposits in excess of federally insured limits.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and certain assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CONSTRUCTION CONTRACTS IN PROGRESS

Information regarding contracts in progress is as follows:

	December 31, 2000

Costs incurred on uncompleted contracts	\$ 656,243
Estimated earnings on uncompleted contracts	273,736

	929,979
Less: Billings to date	(402,193)

	\$ 527,786
	=====

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

NOTES TO FINANCIAL STATEMENT (CONTINUED)
DECEMBER 31, 2000

The net under billed revenues are included in the accompanying Balance Sheet as follows:

	December 31, 2000 -----
Costs and estimated earnings in excess of billings on uncompleted contracts	\$566,291
Billings in excess of costs and estimated earnings on uncompleted contracts	38,505 -----
	\$527,786 =====

The Company has a backlog of approximately \$900,000 at December 31, 2000.

NOTE 3 - NOTES PAYABLE

Notes payable as of December 31, 2000, are as follows:

Note payable to bank, secured by equipment, inventory and accounts receivable, payable on demand or, if no demand made, in monthly installments of \$990 including interest at 9.673%, due June, 2002	\$ 43,038
Note payable to bank, secured by equipment, inventory and accounts receivable, payable on demand or, if no demand made, in one principal payment in January, 2001, interest at 9.673% payable monthly	131,801 -----
	\$174,839 =====

NOTE 4 - SUBSEQUENT EVENT

In January 2001, the Company entered into a stock acquisition agreement (the Agreement) with Chemical and Equipment Specialties, Inc. (CESI), an Oklahoma corporation. At the closing of the Agreement, CESI acquired all of the common stock of the Company in consideration of \$400,000 notes payable and 10,000 shares of CESI stock.

As part of the Agreement, the Company also sold to CESI certain intangible assets, including customer lists, business records and contract rights, in consideration of \$500,000.

F-39

INDEPENDENT AUDITORS' REPORT

Board of Directors
Padko International Incorporated
Duncan, Oklahoma

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

We have audited the accompanying Balance Sheets of Padko International Incorporated as of December 31, 2000 and 1999, and the related Statements of Operations, Changes in Shareholders' Equity (Deficit), and Cash Flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Padko International Incorporated as of December 31, 2000 and 1999, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

WEINSTEIN SPIRA & COMPANY, P.C.
Houston, Texas
June 29, 2001

F-40

PADKO INTERNATIONAL INCORPORATED BALANCE SHEETS

	DECEMBER 31,	
	2000	1999
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,093	\$ 9,375
Accounts receivable	23,235	37,125
Federal income tax receivable	2,303	2,303
	28,631	48,803
PROPERTY AND EQUIPMENT		
Furniture and office equipment	4,369	4,369
Computer equipment	12,699	12,699
Automobile	34,542	34,542
	51,610	51,610
Less: Accumulated depreciation	48,122	41,122
	3,488	10,488
	\$ 32,119	\$57,291

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 17,759	\$ 5,
Accounts payable	30,923	9,
Accrued expenses	21,607	1,
Federal income tax payable		
	-----	-----
Total Current Liabilities	70,289	17,
LONG-TERM DEBT		17,
DEFERRED FEDERAL INCOME TAX		7,
	-----	-----
	70,289	41,
	-----	-----
SHAREHOLDERS' EQUITY (DEFICIT)		
COMMON STOCK - \$.10 par value, 500,000 shares authorized; 150,000 shares issued	15,000	15,
RETAINED EARNINGS (DEFICIT)	(40,770)	
Less: Treasury stock, 100,000 shares, at cost	(12,400)	
	-----	-----
	(38,170)	15,
	-----	-----
	\$ 32,119	\$57,
	=====	=====

See notes to financial statements.

F-41

PADKO INTERNATIONAL INCORPORATED
STATEMENTS OF OPERATIONS

	FOR THE YEAR ENDING DECEMBER 31	
	2000	2001
	-----	-----
REVENUES	\$377,772	\$377,772
Cost of Revenues	300,490	300,490
	-----	-----
GROSS MARGIN	77,282	77,282
EXPENSES:		
Operating	76,886	76,886
Selling, general and administrative	51,333	51,333
	-----	-----
	128,219	128,219
	-----	-----
OPERATING LOSS	(50,937)	(50,937)
OTHER INCOME (EXPENSE)		
Interest expense	(2,110)	(2,110)
Other	2,630	2,630
	-----	-----
	520	520
	-----	-----
LOSS BEFORE INCOME TAXES	(50,417)	(50,417)
FEDERAL INCOME TAX EXPENSE (BENEFIT)		
Current	(2,303)	(2,303)
Deferred	(7,000)	(7,000)

	----- (9,303) -----
NET LOSS	\$ (41,114) =====

See notes to financial statements.

F-42

PADKO INTERNATIONAL INCORPORATED
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	COMMON STOCK		RETAINED EARNINGS (DEFICIT)	TREASURY STOCK		TOTAL
	SHARES	AMOUNT		SHARES	AMOUNT	
Balance, December 31, 1998	150,000	\$15,000	\$ 2,881			\$ 17,881
Net Loss			(2,537)			(2,537)
Balance, December 31, 1999	150,000	15,000	344			15,344
Purchase of Treasury Stock				(100,000)	\$(12,400)	(12,400)
Net Loss			(41,114)			(41,114)
Balance, December 31, 2000	150,000	\$15,000	\$(40,770)	(100,000)	\$(12,400)	\$(38,170)

See notes to financial statements.

F-43

PADKO INTERNATIONAL INCORPORATED
STATEMENTS OF CASH FLOWS

	FOR THE YEAR Ended December ----- 2000 -----
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	\$(41,114)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation	6,889

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Deferred federal income tax benefit	(7,000)
(Increase) Decrease in:	
Accounts receivable	14,370
Prepaid expenses	
Federal income tax receivable	(2,303)
Increase (Decrease) in:	
Accounts payable	21,665
Accrued expenses	20,289
Customer deposits	
Federal income tax payable	(931)

Net Cash Provided by (Used in) Operating Activities	11,865

CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	

Net Cash Used in Investing Activities	

CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from long-term debt	
Payment of debt	(5,642)
Purchase of treasury stock	(12,400)

Net Cash Provided by (Used in) Financing Activities	(18,042)

NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,177)
Cash and Cash Equivalents - Beginning of Year	9,270

CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,093
	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest	\$ 166
	=====
Cash paid for income taxes	\$ 931
	=====

See notes to financial statements.

F-44

PADKO INTERNATIONAL INCORPORATED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999

NOTE 1 - ACCOUNTING POLICIES

The Company maintains its accounts on the accrual basis of accounting in accordance with generally accepted accounting principles. Accounting principles followed by the Company and the methods of applying those principles which materially affect the determination of financial position, results of operations, and cash flows are summarized below:

DESCRIPTION OF BUSINESS

The Company buys oilfield supplies and equipment (primarily from Plainsman Technology, Inc. and Neal's Technology, Inc.) and sells the products internationally.

INCOME RECOGNITION

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Revenues are recognized at the date of delivery, and accounts receivable are recorded at that time. Earnings are charged with a provision for doubtful accounts based on current review of collectibility of accounts. Accounts deemed uncollectible are applied against the allowance for doubtful accounts. There is no allowance for doubtful accounts at December 31, 2000 and 1999.

PROPERTY AND EQUIPMENT

Property and equipment are presented at cost. Depreciation is computed at rates considered sufficient to amortize the cost of the assets over their estimated useful lives using straight-line and accelerated methods. Depreciation is based upon the following estimated useful lives:

Furniture and office equipment	5 years
Computer equipment	3 years
Automobile	3 years

FEDERAL INCOME TAX

Federal income tax expense in these statements is computed at prevailing tax rates.

The Company provides deferred income taxes for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of assets and liabilities.

F-45

PADKO INTERNATIONAL INCORPORATED
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000 AND 1999

CASH AND CASH EQUIVALENTS

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and certain assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - LONG-TERM DEBT

Long-term debt is as follows:

	2000	1999
	-----	-----
Note payable to shareholder, unsecured, interest at 10%, maturing February, 2001	\$17,759	\$17,759

Note payable to shareholder, secured by
automobile, interest at 10.0%, payable
in monthly installments of \$960, including

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

interest, until June, 2000		5,642
	-----	-----
	17,759	23,401
Less: Current maturities	17,759	5,642
	-----	-----
	\$ 0	\$17,759
	=====	=====

F-46

PADKO INTERNATIONAL INCORPORATED
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000 AND 1999

NOTE 3 - FEDERAL INCOME TAX

A reconciliation of the statutory federal income tax rate to the effective income tax rate is as follows:

	DECEMBER 31,
	2000

Federal income tax (benefit) at the statutory rate	\$ (17,142)
Increase (Decrease) resulting from:	
Nondeductible expenses	1,229
Surtax exemption	2,918
Change in valuation allowance	4,000
Other items, net	(308)

	\$ (9,303)
	=====

The components of the net deferred tax asset and net deferred tax liability are as follows:

	DECEMBER 31,	
	2000	1999
	-----	-----
Deferred tax asset:		
Net operating loss carryforward	\$ 5,000	
Deferred tax liability:		
Accelerated tax depreciation	(1,000)	\$ (7,000)
	-----	-----
Net deferred tax asset (liability)	4,000	(7,000)
Valuation allowance	(4,000)	
	-----	-----
	\$ 0	\$ (7,000)
	=====	=====

At December 31, 2000, the Company had net operating loss carryforwards available to offset future taxable income of approximately \$25,000, expiring in 2010.

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Under federal tax law, the amount and availability of loss carryforwards are subject to a variety of interpretations and restrictive tests applicable to the company. The utilization of such carryforwards could be limited or effectively lost upon certain changes in ownership. Accordingly, while the Company believes certain loss carryforwards are available to it, no assurance can be given concerning such loss carryforwards or whether such loss carryforwards will be available in the future. An allowance has been recorded to properly value the net deferred tax asset at December 31, 2000.

F-47

PADKO INTERNATIONAL INCORPORATED NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2000 AND 1999

NOTE 4 - TRANSACTIONS WITH MAJOR CUSTOMERS

During the year ended December 31, 2000, the Company had sales of approximately \$310,000 to two customers in the ordinary course of business, representing 82% of the Company's sales revenue for the period. All of the Company's accounts receivable at December 31, 2000, were due from one of these two customers.

During the year ended December 31, 1999, the Company had sales of approximately \$244,000 to one customer in the normal course of business, representing 72% of the Company's sales revenues for the period. There were no accounts receivable from this customer at December 31, 1999.

NOTE 5 - TRANSACTIONS WITH MAJOR VENDORS

During the year ended December 31, 2000, the Company had purchases of approximately \$173,000 from Neal's Technology, Inc. and \$121,000 from Plainsman Technology, Inc. All of the Company's accounts payable were due to Plainsman Technology, Inc. at December 31, 2000.

During the year ended December 31, 1999, the Company had purchases of approximately \$207,000 from Neal's Technology, Inc. and \$59,000 from Plainsman Technology, Inc. The Company had accounts payable totaling \$7,602 due to Plainsman Technology, Inc. at December 31, 1999. There were no accounts payable due to Neal's Technology, Inc. at December 31, 1999.

NOTE 6 - RELATED PARTY TRANSACTIONS

The Company has notes payable to a shareholder totaling \$17,759 and \$23,401 at December 31, 2000 and 1999, respectively.

NOTE 7 - SUBSEQUENT EVENT

In January 2001, the Company entered into a stock purchase agreement (the Agreement) with Chemical and Equipment Specialties, Inc. (CESI), an Oklahoma corporation. At the closing of the Agreement, all issued and outstanding common stock of the Company was purchased by CESI for \$237,600. In addition, 25,000 shares of CESI's common stock were issued to the Company's shareholders.

F-48

INDEPENDENT AUDITORS' REPORT

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Board of Directors
Material Translogistics, Inc.
dba Gillespie Consulting Company
Duncan, Oklahoma

We have audited the accompanying Statement of Earnings of Material Translogistics, Inc. dba Gillespie Consulting Company for the period April 5, 2000 (date operations commenced) to December 31, 2000. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Statement of Earnings referred to above presents fairly, in all material respects, the results of operations of Material Translogistics, Inc. dba Gillespie Consulting Company for the period April 5, 2000 (date operations commenced) to December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

WEINSTEIN SPIRA & COMPANY, P.C.
Houston, Texas
July 13, 2001

F-49

MATERIAL TRANSLOGISTICS, INC.
DBA GILLESPIE CONSULTING COMPANY
STATEMENT OF EARNINGS
FOR THE PERIOD APRIL 5, 2000 (DATE OPERATIONS
COMMENCED) TO DECEMBER 31, 2000

REVENUES	\$424,379
Operating Expenses	302,811

OPERATING INCOME	121,568

OTHER INCOME (EXPENSE):	
Interest income	752
Interest expense	(1,050)

	(298)

NET EARNINGS	\$121,270
	=====

See notes to financial statements.

F-50

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

MATERIAL TRANSLOGISTICS, INC.
DBA GILLESPIE CONSULTING COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000

NOTE 1 - ACCOUNTING POLICIES

Material Translogistics, Inc. dba Gillespie Consulting Company (the Company) maintains its accounts on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accounting principles followed by the Company and the methods of applying those principles which materially affect the results of operations are summarized below:

ORGANIZATION

Material Translogistics, Inc. was incorporated February 20, 2001, as a successor to the operations of Gillespie Consulting Company, a sole proprietorship owned by Michael Gillespie. As the assets and liabilities of Gillespie Consulting Company were not transferred to the new corporation, no balance sheet is presented.

DESCRIPTION OF BUSINESS

The Company designs and constructs bulk material handling facilities for the oil and gas services industry in the United States of America. Additionally, the Company offers design, construction, project management and maintenance services for related facilities.

INCOME RECOGNITION

Revenues for services are recognized as they are performed. Earnings are charged with a provision for doubtful accounts based on a current review of collectibility of accounts. There was no provision for doubtful accounts for the year ended December 31, 2000.

DEPRECIATION

Depreciation is computed at rates considered sufficient to amortize the cost of the assets over their estimated useful lives using the straight-line method. Depreciation expense totaled \$15,991 for the year ended December 31, 2000.

FEDERAL INCOME TAX

No provision for federal income taxes has been made for the Company (a sole proprietorship), as these taxes are the responsibility of the owners.

F-51

MATERIAL TRANSLOGISTICS, INC.
DBA GILLESPIE CONSULTING COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

management to make estimates and certain assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - SUBSEQUENT EVENT

Effective June 29, 2001, the Company entered into an agreement and plan of reorganization (the Agreement) with Chemical and Equipment Specialties, Inc. (CESI), an Oklahoma corporation. At the closing of the Agreement, all issued and outstanding common stock of the Company was converted into the right to receive up to 40,000 shares of CESI common stock. When so converted, the common stock of the Company will be automatically cancelled and retired.

As part of the Agreement, the Company also sold to CESI certain intangible assets, including customer lists, business records and contract rights, in consideration of \$600,000. CESI did not purchase any other assets owned or leased by the Company, and did not assume any liability of the Company.

F-52

Flotek Industries, Inc. and Acquired Businesses Unaudited Pro Forma Combined Financial Statements Basis of Presentation

Flotek Industries, Inc. (the "Company") merged with Chemical & Equipment Specialties, Inc. (CESI) on October 31, 2001 (the "Merger"). The Company is accounting for the Merger as a "reverse" acquisition of Flotek Industries, Inc. by CESI, in accordance with the purchase method of accounting. The purchase price has been allocated first to the fair value of assets acquired and liabilities assumed based on management's estimates of fair value, with the excess purchase price recorded to goodwill.

CESI was incorporated on June 27, 2000 to acquire businesses in the specialty chemical and well service 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 as the "CESI Acquired Businesses."

The Company is reporting its results on a calendar year basis, effective with the current year ending December 31, 2001. CESI, which is treated as the acquiring company, maintains its accounting on a calendar year basis. Prior to the Merger, Flotek Industries, Inc. maintained its accounting on the basis of a fiscal year ending the last day of February. Pursuant to regulations of the Securities and Exchange Commission, the Company is permitted, for the purpose of these pro forma financial statements, to combine statements of operations for periods which have different ending dates so long as the periods combined are of equal length and are not more than 93 days apart. The statements of operations for Flotek Industries, Inc. are presented on the basis of its prior fiscal year, as noted in the statements.

The unaudited pro forma combined financial statements give effect to (1) the acquisition of the CESI Acquired Businesses by CESI, (2) the Merger, (3) the 120 to 1 reverse stock split which was given effect on November 5, 2001, (4) the conversion of all preferred stock of Flotek Industries, Inc. to common stock and (5) the exercise of warrants to purchase Flotek Industries, Inc. common stock in connection with the Merger (collectively, the "Transactions"). The unaudited pro forma combined statement of operations for the year ended December 31, 2000

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

presents the acquisition of the CESI Acquired Companies by CESI separately from the other Transactions.

The unaudited pro forma combined balance sheet gives effect to the Transactions which occurred subsequent to September 30, 2001 as if they had occurred on that date. The unaudited pro forma combined statements of operations give effect to the Transactions which are not reflected in the respective historical financial statements as if they had occurred at the beginning of each period presented. The unaudited pro forma combined financial statements include pro forma adjustments to the results of operations as follows: (1) pro forma increases in goodwill amortization attributable to the CESI Acquired Businesses using a 20-year estimated life, (2) pro forma increases in interest expense associated with borrowings used to finance the acquisition of the CESI Acquired Businesses, (3) pro forma adjustments to depreciation expense resulting from purchase price adjustments to the basis of fixed assets, (4) adjustments to selling, general and administrative expenses to reflect (a) decreases in salaries and benefits associated with certain owners and managers of the CESI Acquired Businesses who were not employed by CESI after the acquisition of their businesses and who will not be replaced, (b) increases in salaries and

P-1

benefits associated with members of CESI executive management who were not employed for the full period, (c) decreases in compensation expense attributable to distributions of funds from Subchapter S corporations designated for the payment of income taxes, (5) elimination of intercompany revenue transactions between CESI Acquired Businesses, and (6) adjustments to federal and state income tax provisions. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, there have been no pro forma adjustments for amortization of goodwill attributable to the Merger as it was initiated after June 30, 2001 and amortization of goodwill is not required for business combination initiated after that date. Additionally, no pro forma adjustments have been made for potential cost reductions which may result from consolidation efforts or economies of scale of the combined companies nor have there been any adjustments for potential incremental costs associated with increased corporate management and administration and system integration. Such potential cost reductions or incremental costs cannot be accurately quantified. The pro forma adjustments are based on preliminary estimates, available information and assumptions that management deems appropriate.

The unaudited pro forma combined financial statements presented herein do not purport to represent what the Company's financial position or results of operations actually would have been had such events occurred at the beginning of the periods presented, as assumed, or to project the Company's financial position or results of operations for any future period or the future results of any of the acquired businesses.

P-2

Flotek Industries, Inc. and Subsidiaries
Unaudited Pro Forma Combined
Balance Sheet

September 30, 2001

	Flotek	
	Industries,	Pro Forma
CESI	Inc. (1)	Adjustments

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

ASSETS				
Current assets:				
Cash and cash equivalents	\$ 124,765	\$ 57,292	\$ 1,778,466 (b)	\$
			(225,785) (c)	
Accounts receivable, net	1,410,116	1,030,281	-	
Inventories and work in progress	2,350,188	999,404	-	
Other current assets	38,469	-	-	
	-----	-----	-----	-----
Total current assets	3,923,538	2,086,977	1,552,681	
Property and equipment, net	3,117,734	214,531	-	
Goodwill	7,753,450	317,615	5,037,795 (c)	1
Other assets	70,312	200,288	-	
	-----	-----	-----	-----
Total assets	\$14,865,034	\$ 2,819,411	\$ 6,590,476	\$2
	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued expenses	\$ 1,649,455	\$ 603,137	\$ -	\$
Short-term debt	1,414,020	199,409	-	
Current maturities of long-term debt	521,552	11,000	-	
Other current liabilities	631,825	140,839	-	
	-----	-----	-----	-----
Total current liabilities	4,216,852	954,385	-	
Long-term debt, less current maturities	3,593,586	177,502	-	
Other liabilities	-	294,216	(294,216) (a)	
Stockholders' equity:				
Common stock	11,646	19,279,495	(23,452,410) (c)	
			2,383,288 (a)	
			1,778,466 (b)	
Preferred stock	-	2,089,072	(2,089,072) (a)	
Additional paid-in capital	7,433,725	160,879	8,128,282 (c)	1
Retained earnings	(390,775)	(19,841,397)	19,841,397 (c)	
Other comprehensive loss	-	(294,741)	294,741 (c)	
	-----	-----	-----	-----
Total stockholders' equity	7,054,596	1,393,308	6,884,692	1
	-----	-----	-----	-----
Total liabilities and stockholders' equity	\$14,865,034	\$ 2,819,411	\$ 6,590,476	\$2
	=====	=====	=====	=====

(1) Amounts for Flotek Industries, Inc. are as of August 31, 2001.

See accompanying basis of presentation and notes to unaudited pro forma combined financial statements.

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

Flotek Industries, Inc. and Subsidiaries
 Unaudited Pro Forma Combined Statement of Operations
 For the Year Ended December 31, 2000

	CESI Pro Forma Combined (1)	Flotek Industries, Inc. (2)	Pro Forma Adjustments
	-----	-----	-----
REVENUES	\$8,703,612	\$2,981,408	\$
EXPENSES:			
Cost of goods sold	4,524,063	1,394,284	
Selling, general and administrative	2,407,299	1,454,731	
Depreciation and amortization	683,454	90,547	
	-----	-----	-----
Total expenses	7,614,816	2,939,562	
Income from operations	1,088,796	41,846	
Other income (expense), net:			
Interest	(430,440)	(83,968)	
Other	2,443	52,490	
	-----	-----	-----
Income before income taxes	660,799	10,368	-
Income tax expense	277,536	-	4,354
	-----	-----	-----
Net income	\$ 383,263	\$ 10,368	\$ (4,354)
	=====	=====	=====

Basic and Diluted Pro Forma Net Income per Share

Shares Used in Computing Pro Forma Income per Share

(1) See separate pro forma combined financial statement schedule attached.

(2) Amounts for Flotek Industries, Inc. are for the fiscal year ended February 28, 2001.

See accompanying basis of presentation and notes to unaudited pro forma combined financial statements.

P-4

Chemical & Equipment Specialties, Inc. and Subsidiaries
 Unaudited Pro Forma Combined Statement of Operations
 For the Year Ended December 31, 2000

Chemical &

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

	Equipment Specialties, Inc. (CESI)	Esses, Inc.	Plainsman Technology, Inc.	Neal's Technology, Inc.	Padko Internati Inc.
REVENUES	\$ -	\$ 3,755,748	\$ 2,768,478	\$ 1,671,235	\$ 377,77
EXPENSES:					
Cost of goods sold	-	2,153,039	1,619,863	744,671	300,49
Selling, general and administrative	153,462	639,158	1,121,525	566,463	121,33
Depreciation and amortization	15,933	62,515	56,216	54,073	6,88
Total expenses	169,395	2,854,712	2,797,604	1,365,207	428,70
Income (loss) from operations	(169,395)	901,036	(29,126)	306,028	(50,93
Other income (expense), net:					
Interest	10,665	(22,151)	(6,755)	(21,826)	(2,11
Other	-	-	(187)	-	2,63
Income (loss) before income taxes	(158,730)	878,885	(36,068)	284,202	(50,41
Income tax expense (benefit) (1)	-	-	-	119,365	(9,30
Net income (loss)	\$ (158,730)	\$ 878,885	\$ (36,068)	\$ 164,837	\$ (41,11

	CESI Pro Forma Adjustments	CESI Pro Forma Combined
REVENUES	\$ (294,000) (aa)	\$ 8,703,612
EXPENSES:		
Cost of goods sold	(294,000) (aa)	4,524,063
Selling, general and administrative	(497,450) (bb)	2,407,299
Depreciation and amortization	487,828 (cc)	683,454
Total expenses	(303,622)	7,614,816
Income (loss) from operations	9,622	1,088,796
Other income (expense), net:		
Interest	(387,965) (dd)	(430,440)
Other	-	2,443
Income (loss) before		

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

income taxes	(378,343)	660,799
Income tax expense (benefit) (1)	167,474 (ee) -----	277,536 -----
Net income (loss)	\$ (545,817) =====	\$ 383,263 =====

(1) No income tax expense was recorded on Esses, Inc. and Material Translogistics, Inc. as these earnings were taxable to their shareholders.

See accompanying basis of presentation and notes to unaudited pro forma combined financial statements.

P-5

Flotek Industries, Inc. and Subsidiaries
Unaudited Pro Forma Combined Statement of Operations
For the Nine Month Period Ended September 30, 2001

	CESI	Material Translogistics, Inc. (1)	Flotek Industri Inc. (2)
	-----	-----	-----
REVENUES	\$10,100,060	\$ 349,107	\$ 2,985,1
EXPENSES:			
Cost of goods sold	7,063,038	-	1,265,2
Selling, general and administrative	2,560,921	335,369	1,338,3
Depreciation and amortization	493,173	-	71,5
	-----	-----	-----
Total expenses	10,117,132	335,369	2,675,0
Income from operations	(17,072)	13,738	310,0
Other income (expense), net:			
Interest	(235,408)	872	(35,2
Other	20,435	-	6,9
	-----	-----	-----
Income (loss) before income taxes	(232,045)	14,610	281,7
Income tax expense	-	-	-
	-----	-----	-----
Net income (loss)	\$ (232,045) =====	\$ 14,610 =====	\$ 281,7 =====

Basic and Diluted Pro Forma Net Income per Share

Shares Used in Computing Pro Forma Income per Share

(1) Amounts for Material Translogistics, Inc. ("MTI") are for the six month period ended June 30, 2001 prior to the acquisition by CESI. No income tax expense was recorded for MTI as the earnings were taxable

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

directly to the shareholder.

- (2) Amounts for Flotek Industries, Inc. are for the nine month period ended August 31, 2001.

See accompanying basis of presentation and notes to unaudited pro forma combined financial statements.

P-6

Flotek Industries, Inc. and Subsidiaries Notes to Unaudited Pro Forma Combined Financial Statements

UNAUDITED PRO FORMA COMBINED BALANCE SHEET ADJUSTMENTS:

- (a) Records the conversion of all preferred stock of Flotek Industries, Inc. ("Flotek"), including accrued dividends, to common stock effective with the closing of the Merger.
- (b) Records cash proceeds from the exercise, after August 31, 2001, of 494,018 warrants to purchase common stock at \$3.60 per share (adjusted for the 120 to 1 reverse stock split which was given effect on November 5, 2001) for total proceeds of \$1,778,466 in connection with the Merger.
- (c) Records the consideration deemed issued to the Flotek shareholders to effect the "reverse" acquisition of Flotek by Chemical & Equipment Specialties, Inc. ("CESI"). The total number of common shares attributable to the Flotek shareholders was 1,856,216, (adjusted for the 120 to 1 reverse stock split which was given effect on November 5, 2001), with a value of \$8,278,000. In addition, the Company incurred \$341,643 in transaction costs associated with the Merger, of which \$225,785 were recorded after September 30, 2001.

UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS ADJUSTMENTS:

- (aa) Eliminates revenue and cost of sales associated with transactions between CESI Acquired Businesses prior to their acquisition by CESI.
- (bb) Records adjustments to compensation expense, including (1) a reduction of \$467,450 for certain owners and managers of CESI Acquired Businesses who were not employed by CESI after the acquisition of their businesses and who will not be replaced, (2) an increase of \$90,000 for salaries and benefits of CESI executives who were not employed for the full period, and (3) a reduction of \$120,000 attributable to bonus payments from Subchapter S corporations designated for the payment of income taxes on profits distributed to employee shareholders.
- (cc) Records amortization of goodwill of \$383,477 arising from the acquisition of the CESI Acquired Entities by CESI using an estimated life of 20 years, plus a net increase in depreciation expense of \$104,851 attributable to purchase price adjustments to the basis of property and equipment of the CESI Acquired Entities. In accordance with SFAS No. 141, no pro forma adjustments to amortization expense relating to the Merger of CESI and Flotek have been made as the Merger was initiated after June 30, 2001 and amortization of goodwill is not required for business combinations initiated after that date.
- (dd) Records additional interest expense associated with borrowings to finance the cash portion of the consideration paid by CESI to acquire the CESI Acquired Entities.
- (ee) Records the incremental provision for federal and state income taxes relating to Subchapter S corporation income and other pro forma adjustments to reflect an estimated effective tax rate of 42%.
- (ff) The number of shares used to compute pro forma combined net income per share includes shares issued to accomplish (1) the Merger of Flotek and

Edgar Filing: FLOTEK INDUSTRIES INC/CN/ - Form 8-K/A

CESI, (2) the conversion of all Flotek preferred stock and accrued dividends to common stock, (3) the issuance of 494,018 shares of Flotek common stock resulting from the exercise of warrants in connection with the Merger, and (4) the 120 to 1 reverse stock split which was given effect on November 5, 2001. The common stock equivalents on the date of the Merger were not dilutive.

P-7