SYNOVUS FINANCIAL CORP
Form 11-K
March 30, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

FOR ANNUAL REPORTS OF EMPLOYEE STOCK PURCHASE, SAVINGS

AND SIMILAR PLANS PURSUANT TO SECTION 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number: 1-10312

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

SYNOVUS FINANCIAL CORP. 2011 DIRECTOR STOCK PURCHASE PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

SYNOVUS FINANCIAL CORP.

1111 BAY AVENUE

SUITE 500

COLUMBUS, GEORGIA 31901

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Report of Independent Registered Public Accounting Firm

The Plan Administrator

Synovus Financial Corp.

2011 Director Stock Purchase Plan:

We have audited the accompanying statements of financial condition of the Synovus Financial Corp. 2011 Director Stock Purchase Plan as of December 31, 2014 and 2013 and the related statements of operations and changes in plan equity for each of the years in the three-year period ended December 31, 2014. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 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 condition of the Plan as of December 31, 2014 and 2013, and the results of its operations and changes in its plan equity for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Atlanta, Georgia

March 30, 2015

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SYNOVUS FINANCIAL CORP.

2011 DIRECTOR STOCK PURCHASE PLAN

Statements of Financial Condition

December 31, 2014 and 2013

		2014	2013
Assets			
Common stock of Synovus Financial Corp., at fair value (cost $8,278,251 and $9,249,132) (note 4)	499,054 and 588,373 shares	$ 13,519,382	14,827,007
Contribution receivable		85,100	89,574
Dividends receivable		50,105	41,186
		$ 13,654,587	14,957,767
Plan Equity			
Plan equity (257 and 354 participants)		$ 13,654,587	14,957,767

See accompanying notes to financial statements.

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SYNOVUS FINANCIAL CORP.

2011 DIRECTOR STOCK PURCHASE PLAN

Statements of Operations and Changes in Plan Equity

Years ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Investment income:			
Dividend income	$ 157,072	167,868	163,030
Realized gains (losses) on distributions/withdrawals to participants (note 8)	1,166,251	519,221	(147,151)
Unrealized (depreciation) appreciation of common stock of Synovus Financial Corp. (note 7)	(336,745)	4,274,977	4,300,508
Total investment income	986,578	4,962,066	4,316,387
Contributions (note 6):			
Participants	1,076,826	1,114,224	1,439,035
Synovus Financial Corp. and participating subsidiaries and divisions	162,132	200,540	719,518
Total contributions	1,238,958	1,314,764	2,158,553
Withdrawals by participants common stock of Synovus Financial Corp., at fair value (147,687, 92,342 and 118,968 shares, respectively) (note 8)	(3,528,716)	(1,937,867)	(1,640,744)
Net (decrease) increase in plan equity	(1,303,180)	4,338,963	4,834,196
Plan equity at beginning of period	14,957,767	10,618,804	5,784,608
Plan equity at end of period	$ 13,654,587	14,957,767	10,618,804

See accompanying notes to financial statements.

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SYNOVUS FINANCIAL CORP.

2011 DIRECTOR STOCK PURCHASE PLAN

Notes to Financial Statements

December 31, 2014, 2013 and 2012

(1) Description of the Plan

On February 16, 2011, the Board of Directors of Synovus Financial Corp. (Synovus) adopted the Synovus Financial Corp. 2011 Director Stock Purchase Plan (the Plan). The Plan was approved by Synovus shareholders on April 27, 2011 and became effective as of June 1, 2011. On June 1, 2011, the plan assets of a predecessor plan, the Synovus Financial Corp. Director Stock Purchase Plan, were rolled over into the Plan. The Plan is designed to enable participating directors of Synovus Financial Corp. (Synovus) and its subsidiaries to purchase shares of Synovus common stock at prevailing market prices from contributions made by them and by Synovus, Synovus Bank, and any division of Synovus Bank (the Participating Affiliates).

Synovus serves as the Plan Administrator. The Plan agent is American Stock Transfer & Trust, LLC, hereafter referred to as Agent.

Any person who currently serves or in the future is elected to serve as director of Synovus or Synovus Bank or any non-employee who serves as an advisory director or divisional advisory director of any division of Synovus Bank is eligible to participate in the Plan. Participants may contribute to the Plan only through automatic transfers of contributions from their designated demand deposit accounts. Contributions by directors of Synovus Bank or any division of Synovus Bank may not exceed $1,000 per calendar quarter. Contributions by directors of Synovus may not exceed $5,000 per calendar quarter. Matching contributions to the Plan are to be made by the Participating Affiliates in an amount equal to 0% to 50% of each participant s contribution, with the applicable match to be set from time to time by Synovus Board of Directors. The matching contribution through the year ended December 31, 2012 was 50%. Effective February 1, 2013 the Board approved a change to reduce the matching contribution to 15%. The matching contribution for the years ended December 31, 2014 and 2013 was 15%. At any time, Synovus may change the matching contribution without an amendment to the Plan.All contributions to the Plan vest immediately.

The Plan provides, among other things, that all expenses of administering the Plan shall be paid by Synovus. Brokers fees, commissions, and other transaction costs incurred in connection with the purchase in the open market of Synovus common stock under the Plan are included in the cost of such stock to each participant.

The Plan maintains an account balance for each participant equal to the number of shares of Synovus common stock purchased on his/her behalf, plus related investment income or loss. Each participant has the rights and powers of ordinary Synovus shareholders over the shares of common stock held for his or her benefit in the Plan, including the right to vote his or her shares. Each participant will receive cash dividends, stock dividends, stock splits and similar changes in ownership for the shares held in the Plan to the same extent as other ordinary Synovus shareholders.

The Plan provides that all shares must be held for a minimum period of six months, during which the shares cannot be sold, transferred, assigned, pledged, or otherwise disposed of. Subsequent to the six month holding period, the Plan provides that each participant may withdraw at any time all or part of the full number of shares in his or her account balance. The participant may elect to receive the proceeds in the form of shares of common stock of Synovus or in a lump-sum cash distribution.

SYNOVUS FINANCIAL CORP.

2011 DIRECTOR STOCK PURCHASE PLAN

Notes to Financial Statements

December 31, 2014, 2013 and 2012

The Plan provides that upon termination of participation in the Plan, each former participant will receive, at his or her discretion, (i) the full number of shares of Synovus common stock held on his or her behalf by the Agent, together with a check for any fractional share interest, or (ii) a lump-sum cash distribution for the proceeds of the sale of all shares held on his or her behalf by the Agent.

Participation in the Plan shall automatically terminate upon termination of a participant s status as a director whether by death, retirement, resignation, or otherwise.

Synovus reserves the right to terminate or amend the Plan at any time, provided, however, that no termination or amendment shall affect or diminish any participant s right to the benefit of contributions made by him or her, or the Participating Affiliates prior to the date of such amendment or termination.

Synovus reserves the right to suspend Participating Affiliate contributions to the Plan at anytime.

(2) Summary of Significant Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

The Plan s investment in Synovus common stock is stated at fair value, which is based on the closing price per share of Synovus common stock at year-end obtained by using market quotations on the New York Stock Exchange (NYSE), the principal public exchange market for which such securities are traded. The December 31, 2014 and 2013 fair value was $27.09 and $25.20 per share, respectively.

The Plan s investment in the common stock of Synovus is exposed to market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Plan s financial statements.

The realized gain or loss on distributions to participants is determined by computing the difference between the average cost per share and the fair value per share at the date of the distribution to the participants, less transaction costs.

Purchases and sales of Synovus common stock are reflected on a trade-date basis. Dividend income is accrued on the record date.

Contributions by participants and Participating Affiliates are accounted for on the accrual basis. Withdrawals are accounted for upon distribution. At December 31, 2014 and 2013, Plan investments include 26,941 and 34,015 shares held by 8 and 28 former directors, respectively, who have not yet received distribution as permitted by the terms of the Plan.

 (Continued)

SYNOVUS FINANCIAL CORP.

2011 DIRECTOR STOCK PURCHASE PLAN

Notes to Financial Statements

December 31, 2014, 2013 and 2012

(3) Reverse Stock Split

On April 24, 2014, at Synovus 2014 Annual Shareholders Meeting (Annual Meeting), Synovus shareholders approved a proposal authorizing Synovus Board of Directors to effect a one-for-seven reverse stock split of Synovus common stock. Following the Annual Meeting, Synovus Board of Directors authorized the one-for-seven reverse stock split. The reverse stock split became effective on May 16, 2014, and Synovus shares of common stock began trading on a post-split basis on the NYSE at the opening of trading on May 19, 2014. All prior periods presented in this Report have been adjusted to reflect the one-for-seven reverse stock split.

(4) Fair Value Measurements

The Plan determines the fair value of its assets consistent with the provisions of the accounting standard for fair value measurements and disclosures. The accounting standard provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy under the accounting standard are described below:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Plan has the ability to access.

Level 2 inputs use other inputs that are observable, either directly or indirectly. These inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Plan s investment in Synovus common stock is considered a Level 1 input under the fair value hierarchy.

Management of the Plan also believes that the carrying amount of the receivables is a reasonable approximation of fair value due to their short-term nature.

(5) Tax Status of the Plan

The Plan is not qualified under Sections 401(a) or 501(a) of the Internal Revenue Code of 1986, as amended. The Plan does not provide for income taxes because any income is taxable to the participants. Participants in the Plan must treat as compensation income their pro rata share of contributions made to the Plan by the Participating Affiliates. Cash dividends paid on Synovus common stock purchased under the Plan will be taxable to the participants on a pro rata basis for Federal and state income tax purposes during the year any such dividend is received by the participant or the Plan. Upon disposition of the Synovus common stock purchased under the Plan, participants must treat any gain or loss as long-term or short-term capital gain or loss depending upon when such disposition occurs.

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SYNOVUS FINANCIAL CORP.

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Notes to Financial Statements

December 31, 2014, 2013 and 2012

(6) Contributions

Contributions by Participating Affiliates and by participants for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	
Participating affiliates	**Participants**	**Participating affiliates**
Synovus Financial Corp.	$ 174,833	26,283
Synovus Bank	901,993	135,849
Total contributions	$ 1,076,826	162,132

	2013	
Participating affiliates	**Participants**	**Participating affiliates**
Synovus Financial Corp.	$ 151,000	22,650
Synovus Bank	963,224	177,890
Total contributions	$ 1,114,224	200,540

	2012	
Participating affiliates	**Participants**	**Participating affiliates**
Synovus Financial Corp.	$ 188,853	94,426
Synovus Bank	1,250,182	625,092
Total contributions	$ 1,439,035	719,518

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SYNOVUS FINANCIAL CORP.

2011 DIRECTOR STOCK PURCHASE PLAN

Notes to Financial Statements

December 31, 2014, 2013 and 2012

(7) Unrealized (Depreciation) Appreciation in Common Stock of Synovus Financial Corp.
Changes in unrealized (depreciation) appreciation in Synovus common stock for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Unrealized appreciation (depreciation) at beginning of year	$ 5,577,876	1,302,899	(2,997,609)
Unrealized appreciation at end of year	5,241,131	5,577,876	1,302,899
Total change in unrealized (depreciation) appreciation	$ (336,745)	4,274,977	4,300,508

(8) Realized Gains (Losses) on Withdrawals/Distributions to Participants
The realized gains (losses) on withdrawals/distributions to participants for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Fair value at date of distribution or withdrawal of shares of Synovus common stock	$ 3,528,716	1,937,867	1,640,744
Less cost (computed on an average cost basis) of shares of Synovus common stock distributed or redeemed	2,362,465	1,418,646	1,787,895
Total realized gains (losses)	$ 1,166,251	519,221	(147,151)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, Synovus Financial Corp., as administrator of the Synovus Financial Corp. 2011 Director Stock Purchase Plan, has duly caused this Annual Report on Form 11-K to be signed on its behalf by the undersigned, thereunto duly authorized.

SYNOVUS FINANCIAL CORP.
2011 DIRECTOR STOCK PURCHASE PLAN

BY: SYNOVUS FINANCIAL CORP.,
AS PLAN ADMINISTRATOR

March 30, 2015

By: /s/ Allan E. Kamensky
Allan E. Kamensky
Executive Vice President, General Counsel and Secretary

s 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 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 1999 ---------- ---------- ASSETS CURRENT ASSETS Cash and cash equivalents $ 86,120 $ 18,001 Accounts receivable 429,257 328,664 Inventories 342,104 367,029 Prepaid expenses 500 6,754 ---------- ---------- Total Current Assets 857,981 720,448 ---------- ---------- PROPERTY, PLANT AND EQUIPMENT Land 25,769 25,769 Buildings and improvements 406,418 406,418 Plant equipment 209,618 204,781 Laboratory equipment 128,971 127,245 Furniture and fixtures 165,710 165,710 Transportation equipment 238,645 238,645 ---------- ---------- 1,175,131 1,168,568 Less: Accumulated depreciation 931,841 876,200 ---------- ---------- 243,290 292,368 INVESTMENTS IN MARKETABLE SECURITIES 204,573 269,526 OTHER ASSETS 8,049 8,624 ---------- ---------- $1,313,893 $1,290,966 ========== ========== LIABILITIES CURRENT LIABILITIES Current portion of long-term debt $ 53,429 $ 87,277 Accounts payable 300,578 230,990 Accrued liabilities 40,832 10,728 ---------- ---------- Total Current Liabilities 394,839 328,995 LONG-TERM DEBT 7,609 ---------- ---------- 394,839 336,604 SHAREHOLDERS' EQUITY COMMON STOCK, par value $1 per share, 100,000 shares authorized and issued 100,000 100,000 PAID-IN CAPITAL 136,146 136,146 RETAINED EARNINGS 1,061,862 1,097,930 ACCUMULATED OTHER COMPREHENSIVE INCOME 38,594 37,834 Less: Treasury stock - at cost, 54,569 shares (417,548) (417,548) ---------- ---------- 919,054 954,362 ---------- ---------- $1,313,893 $1,290,966 ========== ========== See notes to financial statements. F-26 PLAINSMAN TECHNOLOGY, INC. STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS FOR THE YEAR ENDED December 31, -- 2000 1999 ---------- ---------- SALES $2,768,478 $1,681,005 Cost of Goods Sold 1,619,863 995,612 ---------- ---------- GROSS PROFIT 1,148,615 685,393 Operating Expenses 1,177,741 1,016,683 ---------- ---------- LOSS FROM OPERATIONS

(29,126) (331,290) ---------- ---------- OTHER INCOME (EXPENSE) Dividend income 5,000 Interest expense (6,755) (11,410) Gain (Loss) on sale of assets (187) 55,585 ---------- ---------- (6,942) 49,175 ---------- ---------- NET LOSS (36,068) (282,115) OTHER COMPREHENSIVE INCOME Unrealized holding gains arising during period 1,556 16,990 Less: Reclassification adjustment for gains included in net income (796) 16,205 ---------- ---------- 760 785 ---------- ---------- COMPREHENSIVE LOSS $ (35,308) $ (281,330) ========== ========== See notes to financial statements. F-27 PLAINSMAN TECHNOLOGY, INC. STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999 ACCUMULATED OTHER TOTAL COMMON PAID-IN RETAINED COMPREHENSIVE TREASURY SHAREHOLDERS' STOCK CAPITAL EARNINGS INCOME STOCK EQUITY --------- --------- ------------ ------------ ---------- ------------- Balance - December 31, 1998 $100,000 $136,146 $1,380,045 $37,049 $(417,548) $1,235,692 Net Loss (282,115) (282,115) Change in Unrealized Net Gains on Marketable Securities 785 785 --------- --------- ----------- ------------- ---------- ----------- Balance - December 31, 1999 100,000 136,146 1,097,930 37,834 (417,548) 954,362 Net Loss (36,068) (36,068) Change in Unrealized Net Gains on Marketable Securities 760 760 --------- --------- ----------- ------------- ---------- ----------- Balance - December 31, 2000 $100,000 $136,146 $1,061,862 $38,594 $(417,548) $ 919,054 ========= ========= ========== ======= ========== ========== See notes to financial statements. F-28 PLAINSMAN TECHNOLOGY, INC. STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, --------------------------------------- 2000 1999 --------- --------- RECONCILIATION OF NET LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: Net loss $ (36,068) $(282,115) Adjustments to reconcile net loss to net cash provided by (used in) operating activities: Depreciation and amortization 56,216 82,995 Bad debt expense 17,450 (Gain) Loss on sale of assets 187 (55,585) (Increase) Decrease in: Accounts receivable (100,593) (15,176) Inventory 24,925 90,727 Prepaids 6,254 (6,254) Increase in: Accounts payable 69,588 22,968 Accrued expenses 30,104 7,333 Other assets 15,300 --------- --------- Net Cash Provided by (Used in) Operating Activities 50,613 (122,357) --------- --------- CASH FLOWS FROM INVESTING ACTIVITIES Acquisition of property and equipment (6,563) (40,371) Proceeds from sale of assets 66,891 159,104 Purchases of marketable securities (1,365) --------- --------- Net Cash Provided by Investing Activities 58,963 118,733 --------- --------- CASH FLOWS FROM FINANCING ACTIVITIES Proceeds from debt (61,457) (56,612) Payments of debt 20,000 61,835 --------- --------- Net Cash Provided by (Used in) Financing Activities (41,457) 5,223 --------- --------- NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (68,119) 1,599 Cash and Cash Equivalents - Beginning of Year 18,001 16,402 --------- --------- CASH AND CASH EQUIVALENTS - END OF YEAR $ 86,120 $ 18,001 ========= ========= NONCASH INVESTING AND FINANCING ACTIVITIES Unrealized gain on marketable securities $ 760 $ 785 ========= ========= SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION Cash Paid for Interest $ 6,755 $ 11,411 ========= ========= 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 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: 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) $ (95,919) Nondeductible items 2,263 5,903 Nontaxable income (14,226) Change in valuation allowance 10,000 104,242 --------- --------- $ 0 $ 0 ========= ========= The components of the deferred tax asset are as follows: DECEMBER 31, ------------------------------ 2000 1999 --------- --------- Net operating loss carryforward $ 150,000 $ 140,000 Valuation allowance (150,000) (140,000) --------- --------- $ 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 $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. 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 $121,061 Accounts receivable 419 Inventories 13,605 Costs and estimated earnings in excess of billings on uncompleted contracts 566,291 Prepaid expenses 5,825 -------- Total Current Assets 707,201 PROPERTY AND EQUIPMENT Machinery and equipment $174,738 Furniture and office equipment 43,293 Leasehold improvements 53,652 -------- 271,683 Less: Accumulated depreciation 156,872 114,811 -------- -------- $822,012 ======== LIABILITIES CURRENT LIABILITIES Notes payable $174,839 Accounts payable 247,005 Billings in excess of costs and estimated earnings on uncompleted contracts 38,505 Accrued expenses 4,940 -------- Total Current Liabilities 465,289 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 296,723 356,723 -------- -------- $822,012 ======== 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. F-37 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 ========= F-38 NEAL'S TECHNOLOGY, INC. 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 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 $ 9,270 Accounts receivable 23,235 37,605 Federal income tax receivable 2,303 -------- ------- Total Current Assets 28,631 46,875 -------- ------- 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 41,233 -------- ------- 3,488 10,377 -------- ------- $ 32,119 $57,252 ======== ======= LIABILITIES CURRENT LIABILITIES Current maturities of long-term debt $ 17,759 $ 5,642 Accounts payable 30,923 9,258 Accrued expenses 21,607 1,318 Federal income tax payable 931 -------- ------- Total Current Liabilities 70,289 17,149 LONG-TERM DEBT 17,759 DEFERRED FEDERAL INCOME TAX 7,000 -------- ------- 70,289 41,908 -------- ------- SHAREHOLDERS' EQUITY (DEFICIT) COMMON STOCK - $.10 par value, 500,000 shares authorized; 150,000 shares issued 15,000 15,000 RETAINED EARNINGS (DEFICIT) (40,770) 344 Less: Treasury stock, 100,000 shares, at cost (12,400) -------- ------- (38,170) 15,344 -------- ------- $ 32,119 $57,252 ======== ======= See notes to financial statements. F-41 PADKO INTERNATIONAL INCORPORATED STATEMENTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, ------------------------------ 2000 1999 -------- -------- REVENUES $377,772 $338,452 Cost of Revenues 300,490 276,710 -------- -------- GROSS MARGIN 77,282 61,742 EXPENSES: Operating 76,886 13,047 Selling, general and administrative 51,333 56,667 -------- -------- 128,219 69,714 -------- -------- OPERATING LOSS (50,937) (7,972) OTHER INCOME (EXPENSE) Interest expense (2,110) (3,191) Other 2,630 6,557 -------- -------- 520 3,366 -------- -------- LOSS BEFORE INCOME TAXES (50,417) (4,606) FEDERAL INCOME TAX EXPENSE (BENEFIT) Current (2,303) 931 Deferred (7,000) (3,000) -------- -------- (9,303) (2,069) -------- -------- NET LOSS $(41,114) $ (2,537) ======== ======== 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 TREASURY STOCK ------------------ EARNINGS ---------------------- SHARES AMOUNT (DEFICIT) SHARES AMOUNT TOTAL ------- -------- ---------- --------- -------- ---------- 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 31, ------------------------------------- 2000 1999 -------- -------- CASH FLOWS FROM OPERATING ACTIVITIES Net loss $(41,114) $ (2,537) Adjustments to reconcile net loss to net cash provided by (used in) operating activities: Depreciation 6,889 14,264 Deferred federal income tax benefit (7,000) (3,000) (Increase) Decrease in: Accounts receivable 14,370 33,111 Prepaid expenses 72,248 Federal income tax receivable (2,303) Increase (Decrease) in: Accounts payable 21,665 (37,952) Accrued expenses 20,289 1,478 Customer deposits (85,024) Federal income tax payable (931) (436) -------- -------- Net Cash Provided by (Used in) Operating Activities 11,865 (7,848) -------- -------- CASH FLOWS FROM INVESTING ACTIVITIES Purchase of property and equipment (5,157) -------- -------- Net Cash Used in Investing Activities (5,157) -------- -------- CASH FLOWS FROM FINANCING ACTIVITIES Proceeds from long-term debt 22,500 Payment of debt (5,642) (15,217) Purchase of treasury stock (12,400) -------- -------- Net Cash Provided by (Used in) Financing Activities (18,042) 7,283 -------- -------- NET DECREASE IN CASH AND CASH EQUIVALENTS (6,177) (5,722) Cash and Cash Equivalents - Beginning of Year 9,270 14,992 -------- -------- CASH AND CASH EQUIVALENTS - END OF YEAR $ 3,093 $ 9,270 ======== ======== SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION Cash paid for interest $ 166 $ 2,007 ======== ======== Cash paid for income taxes $ 931 $ 1,367 ======== ======== 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 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 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 1999 -------- ------- Federal income tax (benefit) at the statutory rate $(17,142) $(1,566) Increase (Decrease) resulting from: Nondeductible expenses 1,229 1,169 Surtax exemption 2,918 1,179 Change in valuation allowance 4,000 Other items, net (308) (2,851) -------- ------- $ (9,303) $(2,069) ======== ======= 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. 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 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 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 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 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 Pro Forma CESI Inc. (1) Adjustments Combined --------- ------------ ------------ ------------ ASSETS Current assets: Cash and cash equivalents $ 124,765 $ 57,292 $ 1,778,466 (b) $ 1,734,738 (225,785)(c) Accounts receivable, net 1,410,116 1,030,281 - 2,440,397 Inventories and work in progress 2,350,188 999,404 -

3,349,592 Other current assets 38,469 - - 38,469 ---------- ------------ ------------ ----------- Total current assets 3,923,538 2,086,977 1,552,681 7,563,196 Property and equipment, net 3,117,734 214,531 - 3,332,265 Goodwill 7,753,450 317,615 5,037,795 (c) 13,108,860 Other assets 70,312 200,288 - 270,600 ---------- ------------ ------------ ----------- Total assets $14,865,034 $ 2,819,411 $ 6,590,476 $24,274,921 ========== ============ ============ =========== LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Accounts payable and accrued expenses $ 1,649,455 $ 603,137 $ - $ 2,252,592 Short-term debt 1,414,020 199,409 - 1,613,429 Current maturities of long-term debt 521,552 11,000 - 532,552 Other current liabilities 631,825 140,839 - 772,664 ---------- ------------ ------------ ----------- Total current liabilities 4,216,852 954,385 - 5,171,237 Long-term debt, less current maturities 3,593,586 177,502 - 3,771,088 Other liabilities - 294,216 (294,216)(a) - Stockholders' equity: Common stock 11,646 19,279,495 (23,452,410)(c) 485 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) 15,722,886 Retained earnings (390,775) (19,841,397) 19,841,397 (c) (390,775) Other comprehensive loss - (294,741) 294,741 (c) - ---------- ------------ ------------ ----------- Total stockholders' equity 7,054,596 1,393,308 6,884,692 15,332,596 ---------- ------------ ------------ ----------- Total liabilities and stockholders' equity $14,865,034 $ 2,819,411 $ 6,590,476 $24,474,921 ========== ============ ============ =========== (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. P-3 Flotek Industries, Inc. and Subsidiaries Unaudited Pro Forma Combined Statement of Operations For the Year Ended December 31, 2000 CESI Flotek Pro Forma Industries, Pro Forma Pro Forma Combined (1) Inc. (2) Adjustments Combined ------------- ----------- ------------ ----------- REVENUES $8,703,612 $2,981,408 $ - $ 11,685,020 EXPENSES: Cost of goods sold 4,524,063 1,394,284 - 5,918,347 Selling, general and administrative 2,407,299 1,454,731 - 3,862,030 Depreciation and amortization 683,454 90,547 - 774,001 ---------- --------- ---------- ---------- Total expenses 7,614,816 2,939,562 - 10,554,378 Income from operations 1,088,796 41,846 - 1,130,642 Other income (expense), net: Interest (430,440) (83,968) - (514,408) Other 2,443 52,490 - 54,933 ---------- --------- ---------- ---------- Income before income taxes 660,799 10,368 - 671,167 Income tax expense 277,536 - 4,354 (ee) 281,890 ---------- --------- ---------- ---------- Net income $ 383,263 $ 10,368 $ (4,354) 389,277 ========== ========= ========== ========== Basic and Diluted Pro Forma Net Income per Share $ 0.08 ========== Shares Used in Computing Pro Forma Income per Share (ff)$ 4,850,696 ========== (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 & Equipment Plainsman Neal's Padko Material Specialties, Technology, Technology, International, Translogistics, Inc. (CESI) Esses, Inc. Inc. Inc. Inc. Inc. ------------ ------------ ------------ ------------ ------------- ------------ REVENUES $ - $ 3,755,748 $ 2,768,478 $ 1,671,235 $ 377,772 $ 424,379 EXPENSES: Cost of goods sold - 2,153,039 1,619,863 744,671 300,490 - Selling, general and administrative 153,462 639,158 1,121,525 566,463 121,330 302,811 Depreciation and amortization 15,933 62,515 56,216 54,073 6,889 - -------- --------- --------- --------- ------- ------- Total expenses 169,395 2,854,712 2,797,604 1,365,207 428,709 302,811 Income (loss) from operations (169,395) 901,036 (29,126) 306,028 (50,937) 121,568 Other income (expense), net: Interest 10,665 (22,151) (6,755) (21,826) (2,110) (298) Other - - (187) - 2,630 - -------- --------- --------- --------- ------- ------- Income (loss) before income taxes (158,730) 878,885 (36,068) 284,202 (50,417) 121,270 Income tax expense (benefit)(1) - - - 119,365 (9,303) - -------- --------- --------- --------- ------- ------- Net income (loss) $ (158,730) $ 878,885 $ (36,068) $ 164,837 $ (41,114) $ 121,270 ======== ========= ========= ========= ======= ======= CESI CESI Pro Forma Pro Forma Adjustments 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 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 Material Flotek Translogistics, Industries, Pro

Forma Pro Forma CESI Inc. (1) Inc. (2) Adjustments Combined ------------ ------------- ----------- ----------- ---------- REVENUES $10,100,060 $ 349,107 $ 2,985,176 $ - $13,434,343 EXPENSES: Cost of goods sold 7,063,038 - 1,265,230 - 8,328,268 Selling, general and administrative 2,560,921 335,369 1,338,304 - 4,234,594 Depreciation and amortization 493,173 - 71,565 - 564,738 ----------- --------- ---------- -------- ---------- Total expenses 10,117,132 335,369 2,675,099 - 13,127,600 Income from operations (17,072) 13,738 310,077 - 306,743 Other income (expense), net: Interest (235,408) 872 (35,280) - (269,816) Other 20,435 - 6,942 - 27,377 ----------- --------- ---------- -------- ---------- Income (loss) before income taxes (232,045) 14,610 281,739 - 64,304 Income tax expense - - - 27,008(ee) 27,008 ----------- --------- ---------- -------- ---------- Net income (loss) $ (232,045) $ 14,610 $ 281,739 $ (27,008) $ 37,296 =========== ========= ========== ======== ========== Basic and Diluted Pro Forma Net Income per Share $ 0.01 ========== Shares Used in Computing Pro Forma Income per Share (ff) 4,850,696 ========== (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 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 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