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# 2011 ANNUAL REPORT

COMMUNITY

ENVIRONMENT





Flotek's vision in 2012 is simple yet powerful: We want to make a difference in the lives of everyone we touch.

### Flotek's Technology Portfolio

Flotek's portfolio consists of three primary technology groups: our Chemical Technologies and related Logistics Services; our Drilling Technologies; and our Artificial Lift technologies. Our chemical technologies add value in the drilling, completion and production stages of oil and gas wells; our drilling technologies provide solutions during the drilling stage of oil and gas wells; and our artificial lift technologies address a number of production challenges for oil and gas companies. Our diverse mix of products and services touch every stage of the life cycle of a well. And, while each technology requires unique technical expertise, all of our technologies share a commitment to our vision to provide best-in-class technology, cutting-edge innovation to address the ever-changing challenges of our customers and exceptional customer service.

#### Chemicals

Our chemical technologies focus on developing, manufacturing and distributing a wide array of specialty chemicals used in both the primary and secondary recovery efforts. Our unique and patented chemistries are used in cementing, stimulation, acidizing, drilling and production. Our best-in-class Complex Nanofluid chemistries have been shown to meaningfully increase production and well integrity in unconventional tight gas and oil formations. Moreover, our advanced reservoir modeling capabilities provide tailored chemistry solutions to address clients' proprietary completion and production challenges. We also provide logistics technologies which manage automated material handling, loading facilities and blending capabilities for energy services companies.

#### Drilling

Our drilling technologies focus on designing, manufacturing and distributing a diverse inventory of down hole drilling equipment with applications in oil and gas drilling as well as mining, water and industrial drilling applications. In addition, we provide vertical drilling telemetry services through our best-in-class Teledrift technologies.

#### Artificial Lift

Our artificial lift technologies are focused on assembling, distributing, installing and servicing a broad spectrum of pumping system components including electrical submersible pumps (ESPs), gas separators and other services that largely support coal bed methane (CBM) production. In addition, our Petrovalve™ patented production valve and components is used by a plethora of largely international oil and gas producers in downhole production assemblies.



Flotek : Making a Difference. *Environment. Community. Shareholders. Employees. Clients.*



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Fellow Flotek Shareholders:

Flotek's vision in 2012 is simple yet powerful: We want to make a difference in the lives of everyone we touch.

While, at first, that may seem like a bold undertaking, it is a mission that every member of the Flotek team has and must embrace as we continue our journey to transform Flotek into a premier global oilfield technology enterprise.

While a portion of this annual missive will be used to reflect on the year just passed, Flotek has little time for reflection as our plate is full of prospects that will make a difference in the lives of our clients and our communities and afford the opportunity to create enduring value for our team members and shareholders.

For example, what began in 2011 as a theory about the role of our patented, environmentally-friendly Complex Nanofluid chemistries (CnF) in enhancing production and improving the environmental impact of fracture stimulation completion technologies will, in 2012, become a reality in the form of our next generation CnF. Through the year, it will become clear that this transformational suite of chemistries will not only result in improved economics for oil and natural gas producers but will reduce costs and mitigate the environmental footprint of drilling and completion efforts. We believe the "new" CnF will revolutionize the completion process for producers.

In our drilling technologies business, enhancements to our Teledrift measurement-while-drilling technology have not only improved the accuracy of our technology but also provided a wider range of data analysis options leading to increased efficiency for drilling operators. In 2012, we will introduce a remote data analysis device that will allow engineers anywhere in the world with a WiFi signal to analyze Teledrift data results. For example, an engineer in Belgium could review the Teledrift results from a well in the Bakken on their laptop, iPad or smartphone, saving time and allowing for immediate collaboration on complex drilling projects. With Teledrift, yes, there is now an "app" for that.



My name is Dr. Lakin M. Champagne, and my journey to success began in 1997, where I obtained a Bachelor of Science degree in Biochemistry from Xavier University of Louisiana and then obtained a Ph.D. in Organic/Synthetic chemistry from Louisiana State University. I decided to develop my chemistry skills by accepting a position as a formulations chemist at CFSI Chemical, and I've had the privilege of being with the company for 4 1/2 years now. In June 2011, I authored and presented a SPE paper in The Netherlands entitled: Critical Assessment of Microemulsion Technology for Enhancing Fluid Recovery from Tight Gas Formations and Propped Fractures. I won multiple awards as a result of my paper's content and research.

While those are just two examples of advanced technology offerings from Flotek new for 2012, there are countless others in all three divisions. Whether it is improved friction reducers, de-emulsifiers or cementing additives in the chemical division; improved drilling motors or advanced well plugs in our drilling technologies division; or new and improved applications for our patented Petrovalve production systems in artificial lift, Flotek is committed to be a leader in research and development in specialty oilfield technologies. In fact, Flotek is among the leaders in applied oilfield technology research, spending nearly as much on new technology research and development, as a percent of total revenue, as much larger companies such as Schlumberger.

Very simply, my mantra as the chief executive of Flotek is to provide leadership through innovation, guarantee Flotek remains on the horizon where tomorrow's oilfield technologies are taking shape and ensure continued best-in-class growth through investment in applied research, responsive to and in partnership with our clients. In short, I am convinced that our commitment to research can make a difference for our clients, our communities, the environment and, as a result, serve to make a difference for you, our shareholders.

None of this would be possible without associates that any chief executive would be proud to have on his team. Just three short years ago, when the days were dim at Flotek, many of my colleagues could have simply given up and looked for other opportunities. Instead, they redoubled their efforts, accepted the challenges of re-engineering a troubled company, and believed they could make a difference in the future of Flotek.

The belief and dedication of the Flotek team resulted in a company that dramatically improved its balance sheet – reducing overall indebtedness by nearly 50% from January of 2011 to January of 2012 – saw revenue growth of over 75%, returned to consistent and sustainable profitability and truly made a difference for our clients and, as a result, our shareholders.

My name is Rachel Tedrow. I am a young woman, a wife, a mother, a full time Flotek employee and now a student. I was born and raised in California and moved to the state of Texas with my husband of 7 years, along with our 5 children, one of whom has autism. With as hectic and chaotic as it is in our lives, we have found our home here in Houston, Texas, which has given me this opportunity to work on my career in Business Accounting. It has improved my skills as a Flotek employee as well as a caring mother and loving wife. I hope for a bright future for all and myself and believe that "you can only get what you want out of life if you put forth the effort."



In fact, for the second consecutive year, Flotek was one of the top ten performing companies listed on the New York Stock Exchange.

We also made a difference in our communities. Whether it was our donations to worthy causes such as the Red Cross Tsunami relief, Toys for Tots or an emerging organization that provides oilfield employment opportunities for veterans returning from active duty, a key component of the Flotek culture is giving back. Moreover, our employees give countless hours and provide other resources in the more than two dozen communities in which we serve.

Flotek's people are key to our success. Not only do they make a difference in our organization which, in turn, makes a difference for all of our stakeholders, we like to believe Flotek makes a difference for them. Throughout this report we feature three of our team members with unique yet compelling stories. These stories have one



overriding theme: the keys to success are desire and effort. As Rachel Tedrow so eloquently states, "You can only get what you want out of life if you put forth the effort."

Through the efforts of Lakia, Rachel, Cesar and the hundreds of other Flotek employees, 2011 was a successful year for your Company:

- Flotek reported revenue for the year ended December 31, 2011 of \$258.8 million, an increase of \$111.8 million, or 76%, compared to \$147.0 million for the same period in 2010. The Company posted net income attributable to common shareholders of \$26.5 million or \$0.56 per diluted share. That compares to a net loss attributable to common shareholders of \$50.0 million, or (\$1.94) per diluted common share in 2010. 2011 results include a gain of approximately \$9.6 million in non-cash income related to the adjustment certain warrant liabilities.
- As of December 31, 2011, the Company's cash balance was \$46.7 million, compared to \$19.9 million as of December 31, 2010. Cash increased as a result of improved operating metrics, expense control and additional capital resulting from the exercise of outstanding warrants.
- During 2011 Flotek took several steps to improve its balance sheet. First, the Company repaid its \$40 million senior credit facility. Second, the Company arranged for a traditional, \$35 million revolving credit facility through PNC Bank to meet future working capital and expansion needs. Through an equity exchange with an existing note-holder, Flotek reduced the convertible notes outstanding by \$4.5 million. In addition, at the conclusion of 2011 the Company announced it would repurchase the \$36 million of outstanding senior secured convertible notes. The transaction was completed in January, 2012. Including the senior note repurchase in January, 2012, the Company reduced its debt by approximately 50%.

These financial achievements are the direct result of the outstanding efforts of our Flotek team members. The Company also achieved a number of operational milestones in 2011:

- In Flotek's Chemicals and Logistics business, our efforts to reach the ultimate beneficiaries of our products – exploration and production companies – resulted in increased sales and new relationships which will provide the building blocks for additional growth in 2012 and beyond. In addition, our work on custom applications of our proprietary CnF chemistries and other chemical applications provided new opportunities for collaborations between our research professionals and our clients resulting in new durable relationships and additional business opportunities.



My name is Cesar Loya and I have been with Flotek for six years. I started off as a welder/reamer tech for about two years and then moved up to a dispatcher. One year later I became an operations manager and have been holding strong for three years. I have a wife, three kids, and a stepson. I enjoy playing golf, watching sports, and spending time with my family.

\*In the Drilling Technologies business, the market penetration of Teledrift continued to expand with Teledrift now being the leading measurement while drilling tool in the Permian Basin. Client growth in the Eagle Ford, Mid-Continent and other basins also helped boost Teledrift revenues and profits in 2011. Demand for Flotek's drilling motors also continues to grow as innovation has improved performance.

- In the Company's artificial lift business, opportunities to apply our patented technology to oil production helped offset anemic natural gas prices and the lack of activity in Coal Bed Methane, our traditional source of revenue. In addition, international sales of our patented Petrovalve production system helped boost revenues in the second-half of 2011.
- International sales continued to climb. Our joint venture with Basin Supply – while still in the early stages – has presented opportunities in the Middle East, South America and Russia. While we remain deliberate in executing our international strategy, we believe significant growth is ahead in 2012 and beyond.

In short, 2011 was a year full of opportunities for Flotek. And, through the commitment and dedication of our people, we were able to seize those opportunities resulting in the best year for the Company in recent history.

However, as we strive to make a difference, we can't just look back, we must also look forward and strive to improve each and every day. We are committed to just that: to dream big, execute with a sense of purpose and perfection and continually evaluate our efforts on every front – embracing our successes and learning from our missteps.

We can't promise perfection but we can strive for it, and I pledge to you we will do so each and every day in everything we do. We realize that our success in 2011 only raises expectations for 2012 which will challenge the Flotek team to constantly improve. We cannot afford to be satisfied with where we have been but, rather, Flotek must create a compelling vision for a successful future.

Leadership is about creating and communicating a vision and creating a passion within your team to dream and achieve. In doing so, you transform work into mission and achievement into celebration. In short, you make a difference in the lives of each and every member of your team. And, in turn, they make a difference in the lives of those they touch – their clients, their communities and each other.

At Flotek, I pledge to you, our shareholders, that everything we do will be based on our belief that it is in the best interests of our stakeholders. First and foremost, we will work tirelessly to add value and continue to earn your trust. In short, we will make a difference.

Thank you for your continued interest in and support of Flotek.

With Appreciation,



John W. Chisholm

Chairman, President and Chief Executive Officer



## Corporate Directory

### *Board of Directors*

John W. Chisholm  
Chairman of the Board, Chief Executive Officer, and President

John S. Reiland  
Director  
Chairman, Audit Committee  
Member, Compensation Committee  
Member, Governance & Nominating Committee

Kenneth T. Hern  
Lead Independent Director  
Chairman, Governance & Nominating Committee  
Member, Compensation Committee  
Member, Audit Committee

Richard O. Wilson  
Director  
Member, Compensation Committee  
Member, Governance & Nominating Committee  
Member, Audit Committee

L.V. "Bud" McGuire  
Director  
Chairman, Compensation Committee  
Member, Governance & Nominating Committee

L. Melvin Cooper  
Director  
Member, Compensation Committee  
Member, Audit Committee  
Member, Governance & Nominating Committee

### *Executive Officers*

John W. Chisholm  
Chairman and President

Steve Reeves  
Executive Vice President, Operations

Jempy Neyman  
Executive Vice President, Finance

Johnna Kokenge  
Vice President and Chief Accounting Officer

Glenn Neslony  
Vice President and Treasurer

Kevin Fisher  
Executive Vice President, Global Business Development

## Shareholder Information

### *Annual Meeting*

May 18, 2012 – 1:00pm CDT  
Flotek Industries, Inc. Headquarters  
2930 W. Sam Houston Pkwy. N.  
Suite 300  
Houston, TX 77043

### *Stock Exchange Listing*

The Company's common stock trades on the New York Stock Exchange, under the symbol "FTK."

### *Transfer Agent*

American Stock Transfer & Trust Company  
6201 15th Ave.  
Brooklyn, New York 11219  
800-937-5449

### *Auditors*

Hein and Associates, LLP  
500 Dallas St Suite 2900  
Houston, TX 77002  
713-850-9814



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