



FLOTEK

Industries

2004 Annual Report



SUBSIDIARIES



1004 S. Plainsman Road
Marlow, Oklahoma 73055
580-658-6608

CESI Chemical offers a full spectrum of cementing, stimulation, acidizing, drilling and production chemicals. CESI Chemical has a fully-equipped laboratory in Marlow, Oklahoma, and a complete research lab in Denver, Colorado, for producing these specialty chemicals.



1000 Highway 182
Raceland, Louisiana 70394
985-537-0433

MTI offers design, product management and contracts to do technical management logistics, material handling and loading for other oilfield service companies. MTI built the first computerized blending terminal in the United States.



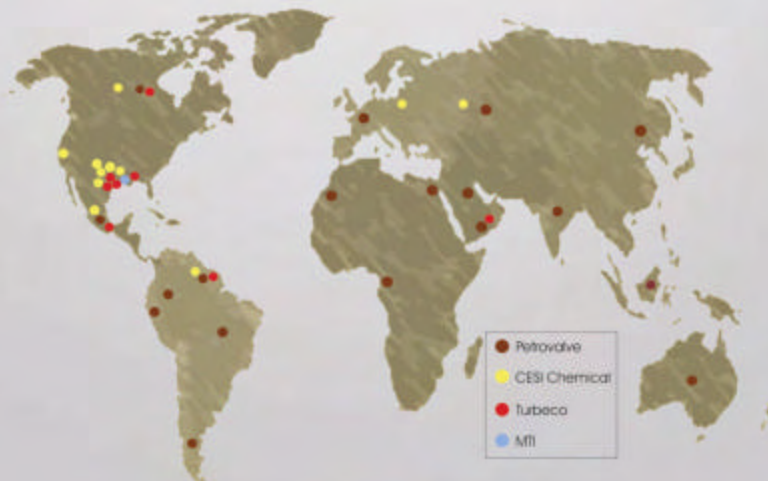
7030 Empire Cental Drive
Houston, Texas 77040
713-466-9881

Petrovalve produces valves for downhole artificial lift operations. These products include Petrovalve Plus which provides longer and more reliable performance than traditional ball and seat valves, the Gas Breaker which is a traveling valve that eliminates common gas/steam-lock problems, and the Standing Petrovalve which fits any artificial lift system.



7030 Empire Cental Drive
Houston, Texas 77040
713-466-9881

Turbeco manufactures and markets solid body centralizers and casing products. Turbeco was one of the first companies to distribute spiral vaned cementing turbulators.



Fellow Shareholders:

The 2004 fiscal year was, by many measures, the best in Flotek's history. Profitability in all segments increased, delivering record earnings of 32 cents per share, 31 cents fully diluted. We saw substantial improvements in gross margin and operating profit. With our strong operational performance, we significantly improved our cash flow and balance sheet position. During 2004 we aggressively paid down \$1.25 million of debt and reported a current ratio of 1.05 as of December 31, 2004.

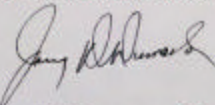
Flotek Industries has consistently adhered to three core businesses: Specialty Chemical & Logistics, Downhole Drilling Tools and Production Tools. Operationally, our Chemical & Logistics segment showed significant and sustainable growth, recording a year-over-year revenue increase of 50.9%. Gross Margin increased 80.7% over 2003 to a level of 41.5%. Our Downhole Drilling Tool segment recorded increased revenues; however, due to the increased cost of goods, the margin as a percentage of revenue deteriorated to 48.0%. The Downhole Production Tool segment benefited from new management and saw sales increase from a low of \$225,000 in 2003 to \$583,000 in 2004. This improvement will continue into 2005 with the penetration of international markets in Russia and the Middle East, as well as the reestablishment of activity with our Venezuelan customers.

With our continued focus on these three segments, we seek organic growth through product development and geographic expansion. We will pursue strategic vertical acquisitions that further our profitability objectives. The recent additions of Spidle Sales and Services, Inc. and the Phoenix Technology screen manufacturing facility have expanded our Downhole Drilling Tools product line and revenue base. We will seek to maintain our competitive advantage in niche markets, continue focus on applied research and development including ongoing patent protection of our biodegradable "green chemical line", the Petrovalve, and Gas Breaker products.

Our strategic and operational strengths are reinforced by the addition of knowledgeable and experienced managers to the Flotek family. We strive to be the best at what we do and are actively seeking to enter new product and service markets we believe we can best serve. Our geographic expansion is driven by customer acceptance rather than simply commencing activity in new areas.

Flotek has always been committed to full disclosure and accurate reporting. In response to the demands of the Sarbanes-Oxley Law, we have established the genesis of a department to function in full compliance with the law. Furthermore, we have instituted a Business Conduct and Ethics Proactive Policy, signed by all officers.

Our Board of Directors takes an active role in the company's success. At our request and insistence, they offer advice using the benefit of their varied expertise and experience. In conclusion, I would like to express my appreciation to all of our dedicated employees and shareholders who make Flotek Industries a success. I look forward to our continued achievements and successes in the years to come.



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

Mission Statement

Flotek Industries Inc., mission is to provide the customers we serve with the best value to enhance their performance. This will be done with the utmost dignity, integrity, and character. Character of the organization and its people matters greatly at Flotek where values will not be compromised. We will strive daily to achieve the highest standards of quality, loyalty, and service to be, with God's grace, the best in our industry.



In 2004 Cesi Chemical saw a remarkable increase in sales and product growth

Sales

The Cesi Chemical segment of Flotek Industries, generated the highest increase in revenue in 2004. Sales of our biodegradable line of specialty chemicals more than tripled, from \$1.1 million in 2003 to \$4.0 million in 2004. Increased sales of our proprietary chemicals, which command higher margins, is attributable to the increase in gross margin for Flotek Industries



Product Growth



The applied research of our PhD team continues to develop expanded applications within our "green line" of chemicals. Our success in Mexico has assisted in the introduction and growth of our capillary product line. In Russia, our chemicals are complementing the Petrovalve business, and there is a tremendous potential for capillary hardware/chemicals.



2004 was a record year for MTI as revenue and profits were the highest in recent years



Revenue for 2004 was \$1.9m vs. \$1.7m in 2003. Our transload and blending services increased by \$484,000 in 2004 over 2003. This increase was due partly to our success in negotiating increases in blending fees, handling fees, and lease payments beginning 1/1/2004. We also saw an increase in business due to our primary client being awarded the cement contract for a large offshore project whereby we blended 200 truckloads of cement in addition to our normal operation over a two and a half month period beginning in April 2004. This was a very high profile project for our client and likewise MTI. The total project went off without incident and both our client and MTI were recognized for our efforts in making the overall project a success. We also were successful in getting our client inland barge business that added to the increase in our numbers.



Fully burden operating income dramatically increased 1200% in 2004. Several factors contributed to the increase in profits. Less management overhead, higher revenues from price increases, increased volume of business at our Raceland facility, and our change in focus from lower margin construction work to higher margin contract labor revenues all played a part of the success we enjoyed in 2004.



In summary 2004 was an exceptional year at MTI. Our client relationship was strengthened by our performance while at the same time increasing our profitability and contributing to the overall success of Flotek Industries.



In 2004 Petrovalve increased their Global presence and sales doubled over previous 2003

In 2004, Petrovalve sales increased 159% over previous 2003 year end totals. Petrovalve now has offices or is represented in 18 countries. We expect this growth to continue in 2005. We continue to receive small domestic orders from sustaining customers. However, we believe this market to remain a minor portion of our overall business.

DESIGN IMPROVEMENTS: We have made significant design improvements that include metallurgical changes, we have dropped the boronization coating and changed to titanium nitride, we are now brazing a tungsten carbide insert into the center of our guides, and we have redesigned the cages for improved flow areas.



FACILITY IMPROVEMENTS: Petrovalve inspection, inventory control, assembly and test are now conducted in a “clean room” environment. Significant modifications were made to our corporate facility thus adding value to our products and offering our customers a presentable facility.

GLOBAL PRESENCE:

OMAN: After conducting a very long trial testing of Petrovalve design and longevity, we received the first order of 100 Petrovalve assemblies for production operation.

LATIN AMERICA: Our sales to Venezuela and Argentina continue to increase. Several major oil companies have developed into sustaining business in 2004.



RUSSIA: We received a significant order in the 4th quarter for 400 Petrovalves. This was accomplished primarily through the efforts of Ken Guest.

CANADA: We added Rick Wald to our Canadian operation. Rick is a fluid dynamics engineer with an excellent background in production operations and business contacts. We have also entered into negotiations with the largest oilfield parts and equipment supplier to become our exclusive stocking distributor throughout Canada.



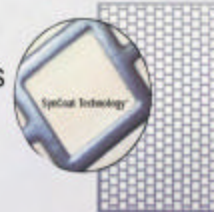
2004 brought new design improvements and two new acquisitions to Turbeco

In 2004 Turbeco sales increased 23% over previous 2003 year end totals. We have expanded our coverage to include the California and Rocky Mountain areas and expect additional growth related to these geographic locations. Turbeco is now represented in 5 countries. We will be expanding our international presence and will target Mexico as one of our priorities.



Turbeco introduced the I.J. (Integral Joint) Bow spring centralizer product in January 2004. We have made several product design improvements for extremely tight and close tolerance drilling program requirements. Design sizes are completed for 3 1/2 thru 18 3/4 requirements.

Turbeco purchased the Phoenix Technology shaker screen company located in Ellisville, Mississippi. Their principle business is furnishing replacements shale skaker screens for various manufacturers of shale shakers. Plans are to move manufacturing to our Mason, Texas Turbeco location.



On December 20, 2004 Flotek Industries, Inc., announced the signing of a definitive agreement to purchase the stock of privately held Spidle Sales and Services, Inc. Spidle is one of the premier downhole tool companies with rental, sales and manufacturing operations throughout the Rocky Mountains.



CORPORATE DIRECTORY

Board of Directors

Jerry D. Dumas, Sr. (1998)
Chairman of the Board

Robert S. Beall (2001)
Member, Compensation Committee
R.S. Beall Investments, Inc.
Bedford, Texas

John W. Chisholm (1999)
Member, Audit Committee
Wellogix, Inc.
Houston, Texas

Dr. Glenn S. Penny (2001)
President, Chief Technical Officer
Flotek Industries, Inc.

Gary M. Pittman (1997)
Chairman, Compensation Committee
President of BioSafe Technologies
McLean, Virginia

Barry E. Stewart (2001)
Chairman, Audit Committee
Rotech Healthcare, Inc.
Orlando, Florida

Richard O. Wilson (2003)
Member, Audit Committee
Offshore Construction Consultant
Houston, Texas

William R. Ziegler (1997)
Member, Compensation Committee

Corporate Officers

Jerry D. Dumas, Sr.
Chief Executive Officer,
Chairman of the Board

Lisa G. Meier
Vice President,
Chief Financial Officer

Glenn S. Penny
President, Chief Technical Officer,
Chemical Patents

Rosalie T. Melia
Corporate Secretary

Shareholder Information

For more information, please
write to our Corporate Office:
Investor Relations
7030 Empire Central Drive
Houston, Texas 77040
Contact us at (713) 849-9911, or
visit our website at
www.flotekind.com

Annual Meeting

The Company's Annual Meeting of
Stockholders will be held at 2:00 p.m. CST
on May 24, 2005, at the Petroleum Club of
Houston, 800 Bell Street, Suite 4300,
Houston, Texas, 77002

Transfer Agent

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038
(212)936-5100

Independent Auditors

UHY Mann Frankfort Stein & Lipp Advisors, Inc.
12 Greenway Plaza, 8th Floor
Houston, Texas 77046-1291
(713)960-1706

