



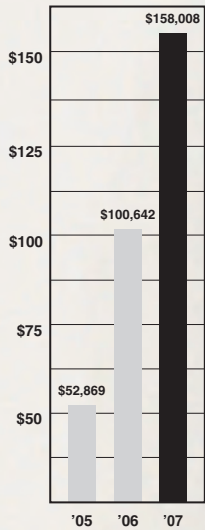
2007 ANNUAL REPORT



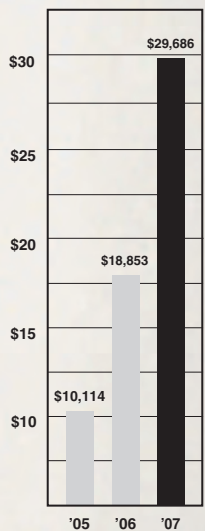
GROWTH THROUGH TECHNOLOGY  
STRENGTH THROUGH PEOPLE



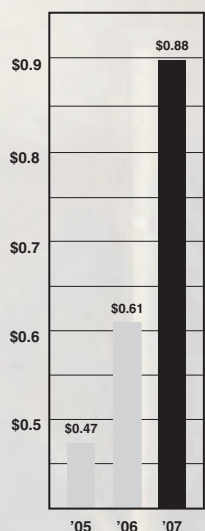
REVENUE  
in Thousands



INCOME FROM  
OPERATIONS  
in Thousands



DILUTED EARNINGS PER  
COMMON SHARE



## CORPORATE PROFILE

**F**lotek Industries, Inc. is a diversified global supplier of drilling- and production-related products and services to the energy and mining industries. We serve major and independent companies through three segments:

### Chemicals and Logistics

We offer a full spectrum of oilfield specialty chemicals used for drilling, cementing, stimulation and production.

Our specialty chemical division provides chemical technology solutions to maximize recovery from both new and mature fields. Our development of specialty chemicals with enhanced performance characteristics to withstand a wide range of downhole pressures, temperatures and other well-specific conditions is key to the success of this business segment. We utilize a technical services laboratory and a research and development laboratory, to focus on design, development and testing of new chemical formulations and enhancement of existing products, often in cooperation with our customers.

Our logistics division designs, project manages and operates automated bulk material handling and loading facilities for oilfield service companies. These bulk facilities handle products, including sand and other materials for well fracturing operations, dry cement and additives for oil and gas well cementing, and supplies and materials used in oilfield operations which we blend to specifications.

### Drilling Products

We are a leading provider of downhole drilling tools used in the oilfield, mining, water well and industrial drilling sectors.

We manufacture, sell, rent and inspect specialized equipment for use in drilling, completion, production and workover activities throughout the United States and in select international markets. Our rental tools include stabilizers, drill collars, reamers, wipers, jars and mud-motors, while equipment sold includes centralizers and drill bits. We focus our product marketing efforts primarily in the Gulf of Mexico, Mid-Continent and Rocky Mountains regions of the United States, with international sales currently conducted through third party agents.

### Artificial Lift

We provide pumping system components including electric submersible pumps or ESPs, gas separators, production valves and services.

Our products address the needs of coal bed methane and traditional oil and gas production to efficiently move gas, oil and other fluids from the producing horizon to the surface. Our patented Petrovalve product optimizes pumping efficiency in horizontal completions, heavy oil and wells with high gas to liquids ratio. Furthermore, our patented gas separation technology is particularly applicable for coal bed methane production as it efficiently separates gas and water downhole, ensuring solution gas is not lost in water production.

Flotek stock is trade on the New York Stock Exchange (NYSE) under the symbol "FTK."



Flotek Industries, Inc. and subsidiaries was originally incorporated under the laws of the Province of British Columbia on May 17, 1985.

In October, of 2001, the shareholders of the Company approved a change in its corporate domicile to Delaware. Flotek stocks were being traded over the counter under the symbol "FLTK."



Later in October, of 2001, the Company completed a reverse merger with CESI Chemical. Prior to the merger Flotek's business consisted of the Downhole Equipment segment (Petrovalve and Turbeco).

## DEAR FELLOW SHAREHOLDERS:

Growth through technology. Strength through people.

Those six words speak volumes about our performance in 2007.

Through the acquisition and development of technology, and the efforts of team members who embrace a culture of ethical conduct, we achieved record revenue of \$158 million in 2007, up 57 percent over 2006, and generated net income of \$17 million, which represented a year-over-year increase of 47 percent.

At \$0.88 our diluted earnings per share figure fell slightly short of our initial guidance, which we subsequently revised in January 2008.

However, that number still represents a 44 percent increase over our 2006 results.



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

### Growing revenue through proprietary "green" chemicals

During 2007, we saw remarkable growth in our Chemicals and Logistics segment, where sales of proprietary specialty chemicals increased 99 percent to \$61 million, from \$31 million in 2006.

One of the key drivers of this business is our proprietary line of biodegradable micro-emulsion products for well stimulation, cementing and fracturing. Revenue from this product line – the only one of its kind – rose from \$26 million in 2006 to \$56 million in 2007.

Derived from a unique biodegradable feedstock, Flotek's green products have tremendous market appeal as the oil and gas industry looks for ways to improve productivity while promoting environmental stewardship.



In early 2005, Flotek Industries acquired Spidle Sales and Service, which merged with previous Turbeco to create Spidle Turbeco and form Flotek's Drilling Products segment.



Throughout the end of 2005, and beginning of 2006, Flotek acquired three companies Harmon Galleon, Precision LOR, and CanOK. These acquisitions broadened Flotek's Drilling Products segment.



*Through the efforts of our R&D team, Flotek's Chemicals and Logistics segment offers green micro-emulsion products no one else can compare to or compete with. We have no peer in this market.*

In order to enhance our capacity to develop proprietary products, in August we opened a new world-class facility in The Woodlands, Texas, near Houston. With state-of-the-art equipment, a staff of chemists that includes seven PhDs with a combined 125 years experience and an R&D budget that has increased annually, we now have research capabilities in the same league as much larger companies.

In order to establish a platform for expansion into products that enhance "brown field" production, and to grow our field capability geographically, in August we acquired Sooner Energy Services, Inc., which develops, produces and markets specialty chemicals. The Sooner acquisition contributed approximately \$2 million to revenue during the fourth quarter.

As our sales mix shifts to patented and proprietary products, we expect margins in this segment to continue increasing.

### Becoming a domestic leader in drilling products

Flotek's Drilling Products segment generated revenue of \$57 million during 2007, a 55 percent increase over 2006.

Much of the revenue growth can be



*Is Flotek in Your Well?*

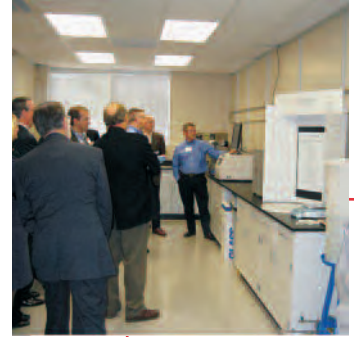
attributed to the January acquisition of Triumph Drilling Tools, which has made Flotek's drilling tool rental group one of the leaders in the domestic market. The Company currently has an inventory of more than 10,000 tools and casing accessories for the

During the start of 2006, Flotek expands specialty chemicals operations to The Netherlands. This allowed Flotek's Chemicals & Logistics segment to address the logistic issues of servicing this important and environmentally demanding region of the world.



In mid 2005, Flotek began trading on the American Stock Exchange under the symbol "FTK."

Also, during the middle of 2007, Flotek completed the new state of art research and development lab for the Chemicals & Logistics segment. This will allow us to provide our customers with innovative solutions and products.



oilfield, mining and water well industries. We expect the expansion of the drilling tool rental business to be a significant growth driver in this segment over the next several years.

*Acquisitions in our Drilling Products segment added capacity and increased our technical prowess. Today, we're among the leaders in the domestic rental tool market, and have the ability to expand our downhole drilling motor business rapidly.*



We moved our Drilling Products segment toward a more technologically advanced posture in 2007 when we acquired CAVO Drilling Motors. CAVO offers a complete line of mud motors and other downhole equipment used in straight-hole, directional and workover drilling applications. The addition of CAVO significantly expanded our downhole mud motor rental fleet, which should allow us to continue to grow this business more rapidly and effectively. The acquisition was completed in two phases, with 50 percent partnership interests secured in January and November.

### Capturing market demand for enhanced reserves and production

Artificial Lift revenue was \$15 million for the year ended December 31, 2007, a 12 percent increase compared to \$13 million for the same period in 2006. The increase in overall sales is due to the acquisition of two coal bed methane service companies in the second quarter of 2006 offset by an overall decline in coal bed methane activity in the Powder River Basin during 2007 as a result of lower wellhead gas prices in the Rocky Mountains, pipeline capacity constraints and a reduction in sales to a significant customer.

This segment manufactures and markets patented products that offer significant efficiency and productivity improvements to customers. For example, unlike ball and seat technology suited only to standard vertical drilling applications, Flotek's Petrovalve can also be used to improve pumping efficiency in horizontal directional drilling, an enhanced oil and gas recovery method for which there is continually growing demand. Our gas separator separates gas from water at the source, capturing a larger percentage of gas than any other technology.



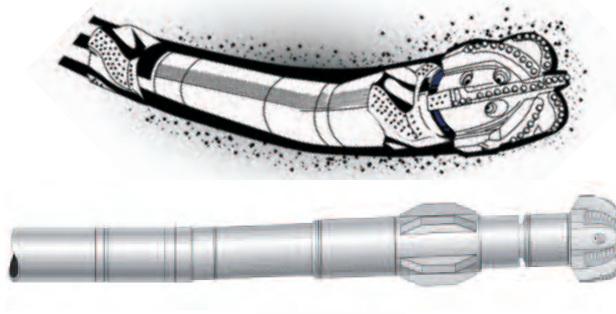
In the middle of 2007, Flotek completed the acquisition of Sooner Energy Services. This acquisition provided the platform and momentum for the broadening of our Specialty Chemical division's field capability to sell and service production enhancement products and chemicals.



In early 2007, Flotek acquired Triumph Drilling Tools. This acquisition provided key regional market share strength and expanded the geographic reach of Flotek's Drilling Products segment.

Starting in February of 2006, Flotek acquired Total Well Solutions and LifTech. These acquisitions complimented our existing patented artificial lift product, the Petrovalve, and will provide our customers a full spectrum of proprietary mechanical coal bed methane production enhancement solutions.





Later in 2007, Flotek completed the acquisition of CAVO Drilling Motors. CAVO provides a complete line of high performance mud motors, which further strengthened Flotek's Drilling Products segment.

*Combining our Petrovalve and patented gas separator allows the Artificial Lift segment to both expand geographically and enter new markets outside of traditional oil and gas production.*

In order to expand on the Petrovalve product, in 2007 we entered the downhole rod pump business. This enables us to sell the complete assembly, not just the valve. Going forward, we'll continue to grow both our product line and geographic footprint.

#### **Expanding our reach through people and products**

Because global demand for energy is soaring we view the opportunity for our products overseas as bullish. As such, we plan to begin aggressively moving our growth internationally in 2008. International sales currently represent about five percent of our business; we see that figure increasing handsomely over the next five years. Our initial targets are the Middle East, North Sea, Europe, Africa and Russia.

Domestically, we expect oil drilling to be very firm in the near-term, and we see the need for the industry to

increase its capacity to supply natural gas. Both of these represent opportunity for Flotek.

*We anticipate significant organic growth. In addition, we remain alert for acquisitions that will give us more technological content.*

As I mentioned at the start, Flotek depends upon our people for our strength. Our mission is to provide our customers with the best value to enhance their performance, and that is not possible through technology or products alone. It takes the dedication of individuals who perform with dignity, integrity and character. Character of our organization and our people matters greatly to us, and our values will never be compromised.

It is my privilege to serve as your Chairman and Chief Executive Officer. My thanks go to all who contribute to our success. I look forward, with you, to the future of our Company.

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



Closing out the exciting year of 2007, Flotek accomplished one of its goals from day one which was to be listed on the New York Stock Exchange.





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*Is Flotek in Your Well?*

