

FLOTEK



2008 ANNUAL REPORT

EXPERIENCE AND TECHNOLOGY: PROVEN PERFORMANCE

CORPORATE PROFILE

Flotek 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:

Chemical and Logistics

We offer a full spectrum of oilfield specialty chemicals used in drilling, cementing, stimulation and production to maximize recovery from both new and mature fields. Key to our success is our ability to design, develop and test chemical formulations with enhanced performance characteristics that can withstand a wide range of downhole pressures, temperatures and other well-specific conditions. Product development is performed at our technical services laboratory in Marlow, Oklahoma, and our research and development laboratory in The Woodlands, Texas.

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 that 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, shock subs, jars, mud-motors and measurement while drilling (MWD) tools, and we sell centralizers and drill bits. Although much of our product marketing efforts have been focused in the Gulf of Mexico, Mid-Continent and Rocky Mountain regions of the United States, we are continuing to expand our international activities.

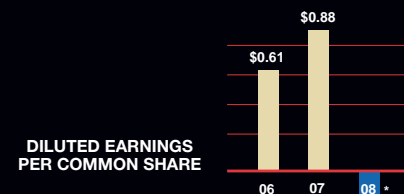
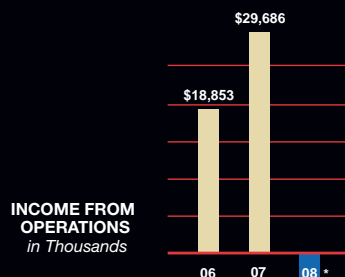
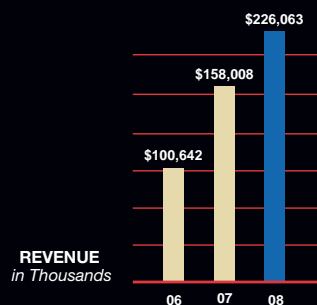
Artificial Lift

We provide pumping system components, including electric submersible pumps (ESP), gas separators and production valves, that 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 a high gas to liquids ratio. 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 traded on the New York Stock Exchange (NYSE) under the symbol "FTK."

Mission Statement

Flotek Industries Inc.'s 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.



* Includes a non-cash charge of \$67.7 million for goodwill and other intangible assets. Please see pages 30-34 of our Annual Report on Form 10-K, which is enclosed with this letter, for a more complete explanation of this impairment charge.

Left Picture: Jerry Dumas speaking to employees at our Artificial Lift Facility in Gillette, WY.

Right Picture: Jerry Dumas speaking with Bruce McGovern, Sr. Vice President Drilling Products.



DEAR FELLOW SHAREHOLDERS:

2008 was a record year for Flotek. Your company achieved record revenue of \$226 million, and revenue exceeded our projections in both the Drilling Products and Artificial Lift business segments. We acquired Teledrift, Inc., based in Oklahoma City, Oklahoma, in February 2008. Teledrift is a technology-driven supplier of drilling and production related products and services, and over a third of its business is international. This acquisition has expanded our offering of drilling products and significantly increased our worldwide sales presence.

Despite these accomplishments, Flotek, along with most other energy service companies and the market in general, experienced a decline in stock value in 2008. We believe this decline resulted not only from general market conditions, including the recent dramatic weakness in the energy sector, but also from the effects of extraordinary weather in the fourth quarter of 2007. That weather halted activity in two of our key geographic markets at the end of 2007, which resulted in an abrupt sales drop. Despite our record annual revenue and profit in 2007, we fell short of our 2007 annual guidance by 12 percent (\$0.88/share compared to our projected \$1.00/share) as a result of this slump.

We entered 2008 with an optimistic view of the market's ability to recover, and we set our targets accordingly. We soon realized, however, that these goals would not be attainable. We revised our guidance to a more realistic figure, but the continued deterioration of the global economy had, and continues to have, a severe effect on our industry. For example, as I write this, the North American rig count is down approximately 33 percent from the 2008 high. We ended 2008 short of our revised guidance as a result of this deterioration of the conditions in our industry. We are currently reviewing actions to improve our liquidity and scale our business to existing market conditions, while preserving our ability to grow in the future.

Positive developments in our core goals of controlling cost, reducing debt, maximizing revenue and profit, and growing internationally:

- The February 2008 acquisition of Teledrift increased the size, technical capability and reach of our Drilling Products segment, and enlarged our international sales presence.

Teledrift is a leading designer and manufacturer of wireless survey and measurement while drilling (MWD) tools, which it typically provides on a rental basis. MWD is useful because it allows downhole survey information to be gathered wirelessly in real-time. This eliminates the costly, time-consuming process of stopping drilling to insert and retrieve other types of measurement devices.

Teledrift's customers include major integrated and independent oil companies and drilling contractors in North America, South America, Australia and selected other international markets. As such, the acquisition has broadened our geographic reach. In addition, Teledrift provides entry into the rapidly expanding offshore directional drilling market, and also helps us meet our strategic objective of increasing and differentiating the technical capability of our drilling products segment to complement our growing specialty chemicals business.

Teledrift's performance in 2008 exceeded our expectations, both in terms of sales and profit. We attribute much of this success to expanded market acceptance of our Pro Series line of MWD tools as well as to the 2008 introduction of our new TeleShot tool.

In December, we completed the construction of a modern, highly efficient Teledrift facility in Oklahoma City, Oklahoma. The original facility, which is prime real estate in the Oklahoma City market, no longer met our operational needs, and will be offered for sale.

The integration of Teledrift into our operations was nearly seamless. We are pleased that the company's employees have embraced our corporate culture.

- The strategic decision to finance the acquisition of Teledrift with the issuance of a convertible bond provides long-term, low cost debt financing that is minimally dilutive.

Wary of heading into a difficult credit market, our senior management team decided to offer 20-year convertible senior notes to finance the purchase of Teledrift. The \$115 million offering, announced in February, has proven to be an extremely wise capitalization strategy, generating adequate cash to execute the purchase and ensuring our liquidity. These bonds cannot be put to the company until 2013, carry an interest rate of 5.25 percent and contain no maintenance covenants, equating to benign debt.



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



Spidle Turbeco's drilling tool yard in Evanston, WY.



Flotek Pump Services' tools being inserted into a gas well.

- Our successful integration of CAVO Drilling Motors, a 2007 acquisition, into our business bolsters our technology-heavy product portfolio.

CAVO offers a complete line of mud motors and other downhole equipment used in straight-hole, directional and workover drilling applications. These products complement Teledrift's MWD technology. The addition of CAVO increased our downhole mud motor rental fleet size from 234 to 370, which should allow us to continue to grow this business more rapidly and effectively.

- Flotek's three Research and Development groups continued to work closely with our customers to create new high technology products that improve performance in unconventional settings.

Flotek performs chemical R&D at a new facility in The Woodlands, Texas. We also have an electromechanical R&D facility in Grand Prairie, Texas, and a mechanical development unit in Houston, Texas. Through expanded research and development capabilities we can continue to shift our sales mix to higher margin patented and proprietary products. Further, working closely with customers to solve their unique problems adds significant value to our relationships.

- In response to global energy demand, we began infrastructure build-out in our key international markets: the North Sea, Middle East, Latin America, Canada and North Africa.

International sales currently account for approximately eight percent of our business, up from five percent in 2007. We believe that international opportunities will help mitigate the effect of the current domestic economic downturn on our business.

- We significantly strengthened our corporate management team by promoting Steve Reeves to Executive Vice President and Chief Operating Officer and by promoting Jempy Neyman to Senior Vice President and Chief Financial Officer.

Prior to his appointment as Executive Vice President and Chief Operating Officer, Mr. Reeves served as President of

Flotek's Downhole Tool division from January 2007, and had served as Vice President of Flotek's Turbeco division from April 2005 until January 2007. Prior to joining Flotek, Mr. Reeves served in various positions over a 30 year career with Halliburton Energy Services, Inc., from which he retired in May 2002. Mr. Reeves' responsibilities ranged from field engineer, logging and perforating, to global operations manager for formation evaluation, overseeing Halliburton Energy Services' worldwide formation evaluation operations.

Mr. Neyman joined Flotek in January 2007 as Vice President of Business Development. Prior to joining Flotek, Mr. Neyman served as President and Chief Executive Officer of Zond Wind Management from January 2006 until December 2006. Mr. Neyman was responsible for managing and liquidating the global wind business operations of Enron Corp. and its affiliates. From January 1992 to August 2001, Mr. Neyman served as Director and Vice President of Enron Producer Finance, an affiliate of Enron, providing risk capital to the oil and gas sector. He utilized this experience when he served as Vice President, Principal Investments of Enron from August 2001 to December 2006. As Vice President, he was responsible for managing financial investments portfolios of Enron and its affiliates. Mr. Neyman is a graduate of the United States Air Force Academy and served as an Air Force officer from June 1967 until December 1976. After being honorably discharged from the U.S. Air Force, Mr. Neyman was a commercial banker specializing in oil and gas lending until joining Enron.

- We have strengthened our Board of Directors to add even more expertise to our organization.

With the appointments of James Massey and Kevin McMahon, Flotek has added the insight and forethought of two more industry experts to our talented Board of Directors.

Following a 36-year career in the domestic and international oil industry, Mr. Massey retired as Vice President, ExxonMobil Production Company. During his tenure at ExxonMobil, Mr. Massey was responsible at different times for production operations in Africa, the Middle East, the Commonwealth of Independent States, South America, Canada and the United States. Mr. Massey serves as the Chairman of the Governance and Nominating Committee for Flotek.



CESI Chemical's Field and Technical Service QA/QC Lab in Marlow, OK.

MTI's blending facility in Raceland, LA.

Mr. McMahon has been Senior Vice President of Internal Audit and Sarbanes Oxley Compliance for Calpine Corp since May 2006. He is a former board member and Audit Chairman for Epic Energy Resources, Inc. located in The Woodlands, Texas. Mr. McMahon has over 20 years experience in banking, public accounting, healthcare, manufacturing and energy/power generation. Mr. McMahon serves as the Chairman of the Audit Committee for Flotek.

In addition to these appointments, a new strategic planning committee within our Board should help us navigate the future more predictably.

- Our IT group successfully interconnected all Flotek companies, and systems improvements have enabled faster performance reporting from all locations.

As we move forward, we are continuing to identify ways to control costs, enhance our liquidity and scale our business to current economic conditions while remaining strong and flexible in order to respond rapidly once the market returns. In fact, we believe that we can resume full operational capability faster than our customers can get their rigs back online. We anticipate that these measures will include renegotiating bank credit facilities; tightening our capital expenditures; closing underused facilities and consolidating activities when possible; and further tightening sales, general and administrative overhead.

Our three business segments all posted strong performances in 2008:

In 2008, each of our business segments continued its trend of posting year-over-year revenue improvement.

Bolstered by the Teledrift acquisition and a full operating year including CAVO, Drilling Products revenue grew for the fifth consecutive year, reaching \$98 million. This was an increase of approximately 73 percent over 2007.

Drilling Products comprises three complementary technologies – motors, telemetry and drill string tools. By offering this suite, Flotek is able to offer a complete bottom hole assembly to our customers and maintain competitive pricing by bundling our technology components with commodity tools. In order to improve margins, in 2008 we began manufacturing our own shock subs and drilling jars, components we had previously sub-rented.

Drilling Products also:

- expanded motor rebuild and repair capabilities into Casper, Wyoming, and Midland, Texas;
- acquired technology for a sealed bearing motor.



CESI Chemical's open house for the new state of the art Research and Development Lab in The Woodlands, TX.



Left Picture: Flotek's new Shock Sub began manufacturing in 2008 to replace previously sub-rented components and improve margins.

Middle Picture: Teledrift, acquired by Flotek in 2008, is a leading designer and manufacturer of wireless survey and measurement while drilling (MWD) tools.

Right Picture: Flotek's patented Petrovalve, which optimizes pumping efficiency in horizontal completions, heavy oil and wells with a high gas to liquids ratio, is a key technology in our Artificial Lift segment.

Chemical and Logistics develops proprietary, licensed and other specialty chemicals used for drilling, cementing, stimulation, acidizing and production. This segment also achieved record revenue in 2008, ending the year up approximately 27 percent at \$109 million. Roughly 71 percent of revenue in this segment is directly tied to pumping activities through the sale of our micro-emulsion frac additive, a patented "green" product that has been proven in independent studies to increase unconventional gas production and improve well economics. R&D expenditure in 2008 was our highest ever, moving us toward our goal of approximately three percent of our annual revenue.

During 2008, Chemical and Logistics also:

- completed commissioning of new blending equipment in Marlow, Oklahoma, and opened a new MTI liquid packaging facility in Raceland, Louisiana;
- added equipment that will allow us to enhance our focus on surface and polymer chemistry in The Woodlands, Texas, and to support manufacturing and QA/QC support in Marlow, Oklahoma; and
- trademarked the StimLube™ name.

During 2008, our Chemical and Logistics segment saw a significant rise in petroleum-based raw material costs and suffered from substantial downward pressure on its finished product pricing. As a result, during 2009 we expect to curtail certain "blue sky" chemical R&D activities that are not immediately revenue-delivering but that can be picked up again quickly when the economy improves.

The Artificial Lift segment set a revenue record with \$18 million in 2008, its fifth consecutive year of growth. This segment's advanced rod pumping system, which utilizes our patented Petrovalve, is widely used in unconventional horizontal and coal bed methane wells to enhance production, improve efficiency and reduce environmental impact. Our patented downhole gas separator, used with our electric submersible pump (ESP), is particularly applicable for coal bed methane production because it efficiently separates gas and water downhole, ensuring solution gas is not lost in water production. During 2008, Artificial Lift opened pump repair shops in the important Farmington, New Mexico, and Gillette, Wyoming, markets where coalbed methane drilling is particularly active.

Goodwill impairment charge:

As a result of our annual fourth quarter review of goodwill and other intangible assets, we recorded a non-cash impairment charge of \$67.7 million in the fourth quarter of 2008. This charge resulted from management's comparison of the current asset carrying values to their fair-value. The economic outlook in 2009 caused management to reach the conclusion that the fair market value of those identified assets had been lowered, or "impaired." This contributed to a total company net loss of \$31.9 million, or a loss of \$1.69 per fully diluted share in 2008, compared to net income of \$16.7 million, or \$0.88 per fully diluted share in 2007. I invite you to review pages 30-34 of our Annual Report on Form 10-K, which is enclosed with this letter, for a more complete explanation of this impairment charge.

We are positioned to emerge even stronger from the challenges to our economy:

Despite a challenging economic environment, 2008 was in many respects a very positive year for your company. I cannot overstate the importance of the contributions made by the entire Flotek team, who help our customers enhance their performance all over the world.

Like all companies in the oil field service industry, our stock is down, which is a disappointment. We're not alone: in this environment, many companies across all industries have seen their stock value decrease. We are focused on improving liquidity and controlling costs in every way possible, yet we're careful to make only moves that will allow us to emerge even stronger as the economy improves.

It is my privilege to serve as your Chairman, Chief Executive Officer and President. I am grateful for your support.

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



IS FLOTEK IN YOUR WELL?



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