



# FLOTEK

2012 ANNUAL REPORT



Making a Difference . . .

CLIENTS | EMPLOYEES | SHAREHOLDERS | COMMUNITY | ENVIRONMENT



*Flotek's vision in 2013 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; 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. 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 and build bulk storage facilities.

#### 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 directional 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 oil and gas producers in down-hole production assemblies.



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As we look back on the past twelve months, 2012 was a year of constructive progress and change for Flotek and its stakeholders. From sustained progress on the financial restructuring front to continued growth in our core businesses, the past twelve months were a success on many fronts.

However, as I reflect on the year just passed, I am most proud of the fact that the entire Flotek team embraced our vision and mission for 2012 and, by and large, was successful in making a difference for all of our stakeholders.

While much was accomplished in 2012, even more stands in front of us as we embark on the New Year with a set of new challenges and a sense of resolve that we can and will make a difference in the lives we touch.

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.

This past year was a year of significant achievement and evolution for Flotek, both from an operational as well as a financial perspective. Very simply, Flotek posted record revenues and margins while, at the same time, completed the transformation of your Company from a debt-laden enterprise to an oilfield technology leader with one of the strongest balance sheets in the industry and a focus on cutting-edge technologies that improve the efficacy of hydrocarbon production while remaining a leading advocate of environmental stewardship in oil and gas exploration and production.

As we began 2012 I articulated that we would strive to make a difference in the lives of our clients, our communities, our employees, the environment and, first and foremost you, our shareholders. While there is still plenty to accomplish, I am proud of our accomplishments over the past twelve months.

- Our clients leveraged Flotek's expertise in completion chemistry, production systems and drilling technologies to create more efficient drilling, completion and production systems, thereby increasing the number of viable exploration horizons as well as improving returns to their stakeholders.
- Our communities benefited from Flotek's robust business growth, our team members' involvement in programs that better the communities in which we live and work and Flotek's direct support of programs in and around the communities we serve that focus on education, human services and ways to improve the quality of life.
- Our employees benefited through more robust business prospects which created opportunities for personal and professional growth as well as Flotek's stock ownership program that casts a very wide net.
- We are committed to making a difference in the environment. From the day in 2003 when Flotek filed for its first patent of a biodegradable completion chemistry to today where we are generating efficacious alternatives to traditional, less friendly chemicals for use across the lifecycle of a well, we understand that it isn't good enough just to be green; Our products have to be both green and great, meaning our products not only protect the environment, they improve outcomes for our customers.

And, along the journey, we have made a difference for our shareholders. Through strength in our operations and the deleveraging and repositioning of our balance sheet, Flotek has provided industry leading returns, both in 2012 and over longer periods. In 2012, the value of Flotek shares increased approximately 22%, compared to 13% for the New York Stock Exchange Composite Index and 2% for the Philadelphia Oilfield Service Index.

To show just how far Flotek has come, for the three year period ending December 31, 2012, Flotek shares improved nearly 810%, compared to about 18% for the New York Stock Exchange Composite Index and approximately 13% for the Philadelphia Oilfield Service Index. Those results are a testament to the hard work and dedication of the entire Flotek team.





Flotek's stock price grew

22%

in 2012, more than any other of the 15 companies in their peer group.

**NUMBERS DON'T LIE**

37%

Percentage Flotek's stock outperformed the median return for 15 companies in their peer group in 2012.

\$600.7 M

Market cap of Flotek at the end of 2012.

23.2%

Percentage increase in Flotek's market cap over year-end 2011.

Making a difference isn't easy. It requires patience, creativity, a willingness to believe when others doubt and a mindset that places opportunity above fear of failure. Indeed, it is the mindset and belief of the Flotek family that sustained the enterprise during its darkest days and continues to turn challenges into opportunities to make a difference for all of our stakeholders.

In short, the Flotek team believed and agreed that a measure of success is to treasure the journey, knowing that obstacles for many were opportunities for us.

The financial successes of 2012 were accentuated by Flotek's continued reduction in leverage, which culminated with the final retirement of convertible notes in February 2013. As a result of strong financial performance and a well-executed financial plan, Flotek now has less than \$25 million in low-cost debt, making your company one of the least leveraged companies amongst its peers.

As a result, 2013 should provide the company with significant free cash flow, providing plenty of flexibility to continue its growth objectives by reinvesting in existing businesses as well as prudently examining opportunities to grow your Company through strategic expansion.

Flotek's success in recent years is, in large part, a result of our commitment to research and innovation in key oilfield technologies. In fact, during the financial challenges of 2009, it would have been very easy for Flotek to make the decision to "save money" by cutting the Company's research budget. Instead, we made the conscious decision to increase spending, knowing that cutting edge innovation would be the one tenet that could restore confidence in the future of Flotek. In fact, Flotek remains a leader in oilfield research and development spending with a total research budget, as a percent of total revenue, that compares to much larger oilfield concerns such as Schlumberger.

For example, what began in 2011 as a theory about the role of our patented, environmentally-friendly Complex Nanofluid™ chemistries in enhancing production and improving the environmental impact of fracture stimulation completion technologies has become a reality in the form of our next generation CnF® Additive. Now in commercial trials, 2013 will be the year where it becomes 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® Additive 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 introduced a remote data analysis device that allows engineers anywhere in the world 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. The commitment to this cutting-edge technology provided significant new market opportunities for Teledrift.

While those are just two examples of advanced technology offerings from Flotek in 2012, there are countless others in all three divisions. Very simply, our commitment to new oilfield technologies – whether in advanced chemistry or production systems in our artificial lift division – is stronger than ever, and we anticipate that the combination of new chemistries and technologies developed by our industry-leading scientists with strategic additions to our robust portfolio will make 2013 a year of prolific innovation and growth for your Company.

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While our growth won't be limited to any one concept or geography in the coming year, we have already announced two key initiatives in 2013.

Flotek recently announced a joint venture with Gulf Energy, a leading oilfield service and technology company in the Sultanate of Oman, to develop a state-of-the-art oilfield chemistry and production company in the Middle East.

This partnership is an important and significant step in establishing Flotek's leadership position in global oilfield chemistry. Gulf Energy has become a leader in developing a wide range of advanced oilfield solutions throughout the Middle East and brings innovative expertise and deep relationships to this partnership. Combining Flotek's advanced oilfield chemistry solutions, Gulf Energy's existing clients and the best research minds in the region is a formula that should create a leading oilfield technology effort in the Middle East and North Africa.

Gulf Energy has secured acreage near the Omani port of Sohar to construct a chemical production facility. Once complete, the facility will market and provide oilfield chemistry to projects throughout the region. In addition, a research and development facility will be located in or near Muscat, the commercial center of Oman and headquarters of Gulf Energy.

The relationship with Gulf Energy is just one example of our continued focus on international growth. There is not a hydrocarbon producing region in the world that Flotek now does not touch, a major change from just two years ago. While the development of consistent, commercial opportunities will take time, our progress in the past year is both significant and encouraging.

In addition, we continue to make marked progress in our Enhanced Oil Recovery (EOR) initiatives. As we have noted before, the demand for surfactants and other specialty chemicals in EOR projects is greater than any other hydrocarbon application. And, early studies suggest Flotek's chemistries provide value-added benefits in EOR projects similar to those in primary recovery.

While we continue to be very deliberate in our approach to this new market, we are currently involved in several projects to further demonstrate the efficacy of our technology and economic benefits of our suite of specialty chemistries in enhanced recovery projects. Included are projects for two of the largest players in the EOR market.

In 2013, we will be very focused on pushing our EOR initiatives forward both through intrinsic growth and, quite possibly, through extrinsic opportunities that add to the breadth and depth of our EOR service offerings. Consistent with our belief in research and development in our primary completion business, we believe that investment in the best, leading edge science and technology for enhanced recovery will make Flotek a more ubiquitous player in this incredibly dynamic and growing market.

In the attached annual report filed with the U.S. Securities and Exchange Commission, the progress your Company has made in recent years is set forth in clear detail. Moreover, over the past three years I have endeavored to provide a clear road map regarding our objectives and game plan:

- In 2010 I asked for your patience while we worked diligently to re-engineer a Company with a bruised psyche, a broken balance sheet and a battered operating structure.
- In 2011, the Flotek team dedicated itself to returning your Company to an industry-leading technology position, supporting our clients and communities through innovation and accelerating profitable growth and return to shareholders.
- In 2012, your Company pledged to make a difference by assuring our chemistries were both green and great, improving our leading edge downhole products, providing expanded opportunities for our employees and creating industry-leading value for our shareholders.

Flotek's stock price grew

810%

from the beginning of 2010 to the end of 2012.

**NUMBERS DON'T LIE**

**\$455,224**

Amount of money you would have made if you had invested \$50,000 in Flotek at the beginning of 2010.

**\$32.4 M**

Market cap of Flotek at the beginning of 2010.

**1,751%**

Percentage increase in Flotek's market cap from the beginning of 2010 to the end of 2012.



While I am pleased with our success under most measures, what now matters is how we address the challenges that lie ahead for your Company. In 2013, we must focus on prudently investing capital to create optimal returns for our shareholders through a wise balance of intrinsic growth and external opportunities.

While we will be deliberate, we will not be afraid to consider extrinsic growth opportunities. However, we know from Flotek's history that every acquisition will be closely scrutinized. Any transaction will have to be compelling from both a strategic and value perspective. Moreover, we understand that any transaction will have to be precisely integrated to assure your company does not undergo the growing pains experienced in the past decade.

In summary, when I reflect on my last three years at the helm of your Company, I marvel at the distance Flotek has traveled in such a short period of time and I concluded the following:

If we were able to accomplish so much starting with so little, imagine what we can accomplish with the resources at Flotek's disposal today. That, indeed, is the challenge for 2013: to harness the resources we have developed to create more opportunities for growth, more opportunities for value creation and more opportunities for further self-improvement in 2013 and beyond. With our team in place, I am more excited than ever about the future of Flotek.

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 2012 only raises expectations for 2013 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.

Finally, I know all Flotek stakeholders will join me in applauding the leadership of long-time director Richard Wilson. After many years of loyal service to Flotek, Dick has chosen to retire from the Board of Directors at this year's annual meeting. Dick's service spanned more than a decade and his wisdom, counsel and unwavering loyalty to Flotek served as a bright beacon of reason during otherwise cloudy times at Flotek. As both a director-colleague and as a close personal friend, Dick's steady advice and demeanor have provided strength throughout my tenure at Flotek. His thoughtfulness, professionalism and care will be deeply missed and hard to replace. Dick, thank you.

Along with all of my colleagues 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