FLOTEK INDUSTRIES INC/CN/
Form 10-K/A
May 21, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 2

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-13270

FLOTEK INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**90-0023731**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2930 W. Sam Houston Parkway N. #300 Houston, TX	**77043**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (713) 849-9911

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.0001 par value	**New York Stock Exchange, Inc.**
5.25% Convertible Senior Notes Due 2028 and guarantees	**New York Stock Exchange, Inc.**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer x (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2009 (based on the closing market price on the Composite Tape on June 30, 2009) was approximately $45,224,000 (determined by subtracting the number of shares held by affiliates of Flotek Industries, Inc. on that date from the total number of shares outstanding on that date). At May 12, 2010, there were 30,091,151 outstanding shares of Flotek Industries, Inc. common stock, $0.0001 par value.

DOCUMENTS INCORPORATED BY REFERENCE

None

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EXPLANATORY NOTE

Flotek Industries, Inc. (the Company) is filing this amendment to its Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was originally filed with the Securities and Exchange Commission on March 31, 2010 (the Original Filing), and amended by the Annual Report on Form 10-K/A (Amendment No. 1) filed on April 30, 2010, to include restated financial statements as described in Note 1 to the consolidated financial statements. The financial statements are being restated due to adoption of FASB ASC 815-40-15-5 (ASC 815-40 , formerly EITF 07-5), Determining Whether an Instrument (Or Embedded Feature) Is Indexed to an Entity s Own Stock, which became effective as of January 1, 2009 and indicates that the anti-dilution price protection features in the Company s outstanding warrants require accounting for the fair value of the warrants as a liability. The restated financial statements account for the reclassification of the Company s warrants from stockholders equity to a warrant liability, and for changes in the fair value of the warrant liability in the statement of operations.

The Company s Original Filing reflected warrants to purchase 10,480,000 shares of the Company s common stock as stockholders equity as of December 31, 2009. In this amendment, such warrants have been reclassified as liabilities in accordance with ASC 815-40. The resulting impact of this accounting change as of and for the year ended December 31, 2009 is a decrease in the Company s net loss of $0.5 million, a decrease in the Company s additional paid-in capital of $5.2 million, a decrease in the Company s accumulated deficit of $0.5 million, and an increase in warrant liability of $4.7 million.

The revisions relate to non-operating and non-cash items as of and for the fiscal year ended December 31, 2009. ASC 815-40 did not impact the Company s financial statements for periods ending June 30, 2009 or earlier. The restatement does not result in a change in the Company s previously reported revenues or total cash and cash equivalents shown in its financial statements for the fiscal year ended December 31, 2009.

The items of the Original Filing which are amended and restated by this Annual Report on Form 10-K/A

(Amendment No. 2) as a result of the foregoing are:

Part II Item 6 Selected Financial Data

Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations

Part II Item 8 Financial Statements and Supplementary Data

Part IV Item 15 Exhibits and Financial Statement Schedules

For the convenience of the reader, this Annual Report on Form 10-K/A (Amendment No. 2) sets forth the Original Filing in its entirety. Other than as described above, none of the other disclosures in the Original Filing have been amended or updated. Among other things, forward-looking statements made in the Original Filing have not been revised to reflect events that occurred or facts that became known to the Company after the filing of the Original Filing, and such forward-looking statements should be read in their historical context. Accordingly, this Annual Report on Form 10-K/A (Amendment No. 2) should be read in conjunction with the Company s filings with the Securities and Exchange Commission subsequent to the Original Filing.

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FORWARD-LOOKING STATEMENTS

We have included in this Annual Report on Form 10-K, and from time to time our management may make, statements that may constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts but instead represent only our current belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. The forward-looking statements contained in this Annual Report are based on information as of the date of this Annual Report. Many of these forward looking statements relate to future industry trends, actions, future performance or results of current and anticipated initiatives and the outcome of contingencies and other uncertainties that may have a significant impact on our business, future operating results and liquidity. We try, whenever possible, to identify these statements by using words such as anticipate, believe, estimate, continue, intend, expect, plan, forecast, project and similar expressions, for future-tense or conditio (will, may, should, could, etc.). We caution you that these statements are only predictions and are not guarantees of future performance. The forward-looking statements and our actual results, developments and business are subject to certain risks and uncertainties that could cause actual results and events to differ materially from those anticipated by these statements. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. We assume no obligation to update or revise any forward-looking statements, whether as a result of new information or future events, except as required by law. Important factors that could cause actual results to differ from those in the forward-looking statements include, among others, those discussed under Item 1A. Risk Factors, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, and those described elsewhere in this Annual Report on Form 10-K and from time to time in our future reports filed with the Securities and Exchange Commission.

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PART I

Item 1. Business.

General

Flotek Industries, Inc. is a diversified global supplier of drilling and production related products and services to the oil and gas industry. Our core focus is oilfield specialty chemicals and logistics, downhole drilling tools and downhole production tools. On December 27, 2007, our common stock began trading on the New York Stock Exchange (NYSE) under the stock ticker symbol FTK. Our website is located at *http://www.flotekind.com.* We make available free of charge on or through our internet website our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the Securities and Exchange Commission (SEC). Information contained in our website or links contained on our website are not part of this filing. As used herein, Flotek, Company, we, our and us may refer to Flotek Industries, Inc. and/or its subsidiaries. The u these terms is not intended to connote any particular corporate status or relationships.

Historical Developments

Flotek was originally incorporated under the laws of the Province of British Columbia on May 17, 1985. On October 23, 2001, we approved a change in our corporate domicile to the state of Delaware and a reverse stock split of 120 to 1. On October 31, 2001, we completed a reverse merger with CESI Chemical, Inc. (CESI). Since that date, we have grown through a series of acquisitions.

For information relating to our acquisitions during 2008 and 2007, refer to Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 3 to the consolidated financial statements included in Part II, Item 8. Financial Statements and Supplementary Data.

Description of Operations

Our business is organized into three strategic business units or segments: Chemicals and Logistics, Drilling Products and Artificial Lift. Each segment offers various products and services and requires different technology and marketing strategies. All three segments market products domestically and internationally.

For financial information regarding each segment and geographic areas in which we operate, see Note 17 to the consolidated financial statements included in Part II, Item 8. Financial Statements and Supplementary Data.

Chemicals and Logistics

The chemical business offers a full spectrum of oil field and gas field specialty chemicals used for drilling, cementing, stimulation, and production designed to maximize recovery from both new and mature fields. Our specialty chemicals are key to the success of this business segment. Our specialty chemicals have enhanced performance characteristics and are manufactured to withstand a wide range of downhole pressures, temperatures and other well-specific conditions. We operate two laboratories, a technical services laboratory and a research and development laboratory, which focus on design, development and testing of new chemical formulations and enhancement of existing products, often in cooperation with our customers.

Our CESI branded micro-emulsions are patented (US & foreign) and are therefore unique in the oil and gas market. Micro-emulsions are stable mixtures of oil, water and surface active agents, forming a complex nano-fluid in which the molecules are organized (or assembled) into nanostructures. The combination of solvent, surface active agent(s) and structure provide better well treatment results than the use of solvent and surface active agent(s) alone. CESI s micro-emulsions are composed of renewable plant derived cleaning ingredients and oils and are biodegradable. Some of the micro-emulsions have received approval for use in the North Sea, meeting some of the most stringent oil field environmental standards in the world. CESI s micro-emulsions have documented operational and financial benefit in both low permeability sand and shale reservoirs.

Our logistics business designs, project manages and operates automated bulk material handling and loading facilities for oilfield service companies. These bulk facilities handle oilfield 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 customer specification.

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. Through internal growth and acquisitions, we have increased the size and breadth of our rental tool inventory and geographic scope of operations so that we now conduct tool rental operations throughout the United States and in select international markets. Our rental tools include stabilizers, drill collars, reamers, wipers, jars, shock subs, wireless survey, and measurement while drilling (MWD) tools and mud-motors, while equipment sold includes mining equipment, centralizers and drill bits. We focus our product marketing efforts primarily in the Southeast, Northeast, Mid-Continent and Rocky Mountain regions of the United States, with international sales currently conducted through third party agents and employees.

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. Several of our Artificial Lift products employ unique technologies to improve well performance. Our patented Petrovalve product optimizes pumping efficiency in horizontal completions, heavy oil and wells with high liquid to gas ratios. This unique valve can be placed horizontally, results in increased flow per stroke, and eliminates gas locking by replacing the traditional ball and seat valve that requires more maintenance. 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. Because gas is separated downhole, it reduces the environmental impact of escaped gas at the surface. The majority of our products for Artificial Lift are manufactured in China, assembled domestically and distributed globally.

Seasonality

On an overall basis, our segment operations are not generally affected by seasonality. Certain working capital components may build and recede during the year reflecting established selling cycles, and business cycles can impact our operations and financial position when compared to other periods, but we do not consider our operations to be highly seasonal. However, the performance of services in all segments may be temporarily affected by weather and natural phenomena. Examples of how such phenomena can impact our business include:

- the severity and duration of the winter in North America can have a significant impact on gas storage levels and drilling activity for natural gas;
- the timing and duration of the spring thaw in Canada directly affects activity levels due to road restrictions; and
- hurricanes can disrupt coastal and offshore operations.

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In addition, the results of operations of the Chemical and Logistics segment are historically stronger in the fourth quarter of the year due to higher spending near the end of the year by our customers. Also, the results of operations of our Artificial Lift segment are historically weaker in the second quarter due to restrictions on drilling on federal lands because of the breeding season of certain bird species.

Product Demand and Marketing

The demand for our products and services is generally correlated to the level of natural gas and to a lesser extent oil well drilling activity, work-over activity and gas production levels, both in the United States and internationally. We market our products primarily through direct sales to our customers through sales employees with the assistance of operations employees and Company management. We have established customer relationships which provide for repeat sales in all of our segments. The majority of our marketing is currently conducted within the United States. Internationally, we operate primarily through agents in Canada, Mexico, Central and South America, the Middle East, and Asia.

Customers

The customers for our products and services include major integrated oil and natural gas companies, independent oil and natural gas companies, pressure pumping service companies and state-owned national oil companies. One of our customers, Halliburton Company and its affiliated companies, accounted for 17%, 20% and 21% of our consolidated revenues for the years ended December 31, 2009, 2008 and 2007, respectively. Our top three customers accounted for 22%, 26% and 25% of consolidated revenues for the years ended December 31, 2009, 2008 and 2007, respectively.

Research and Development

We are engaged in research and development activities directed primarily toward the improvement of existing products and services, the design of specialized products to meet customer needs and the development of new products, processes and services. We incurred $2.1 million, $1.9 million and $0.8 million in research and development expenses for the years ended December 31, 2009, 2008 and 2007, respectively. In 2009, our research and development spending was approximately 1.9% of consolidated revenues. We intend to maintain our near-term research and development investment at levels consistent with 2009 expenditures.

Backlog

Due to the nature of our business and contracts with our customers, we do not experience any significant amount of backlog orders.

Intellectual Property

We have followed a policy of seeking patent protection both within and outside the United States for products and methods that appear to have commercial significance and qualify for patent protection. The decision to seek patent protection depends on whether such protection can be obtained on a cost-effective basis and is likely to be effective in protecting our commercial interests. We believe our patents and trademarks, together with our trade secrets and proprietary design, manufacturing and operational expertise, are reasonably adequate to protect our intellectual property and provide for the continued operation of our business. We maintain patents on our production valve design, casing centralizer design, ProSeries tools, and trade secrets, and have patents pending on certain specialty chemicals. Patents expire at various dates during 2021 and 2022.

Competition

Our ability to compete in the oilfield services market is dependent on our ability to differentiate our products and services, provide superior quality and service, and maintain a competitive cost structure. Activity levels in our three segments are driven primarily by current and expected commodity prices, drilling rig count, oil and gas

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production levels, and customer capital spending allocated for drilling and production. The regions in which we operate are highly competitive. The competitive environment has intensified as recent mergers among oil and gas companies have reduced the number of available customers. Additionally, the recent downturn in the economy and commodity prices have caused the market for our services and that of our competitors, which may vary significantly by geographical region, to contract. Many other oil and gas service companies are larger than we are and have greater resources than we have. These competitors may be better able to withstand industry downturns, compete on the basis of price and acquire new equipment and technologies, all of which could affect our revenue and profitability. These competitors compete with us both for customers and for acquisitions of other businesses. This competition may cause our business to suffer. We believe that competition for contracts and margins will continue to be intense in the foreseeable future.

Raw Materials

We believe that materials and components used in our servicing and manufacturing operations and purchased for sale are generally available on the open market and from multiple sources, although collection and transportation of these raw materials to our facilities can be adversely affected by extreme weather conditions. However, certain raw materials used by our Chemical and Logistics segment in the manufacture of our patented micro-emulsion chemicals are available from limited sources, and disruptions to our suppliers could materially impact our sales. The prices we pay for raw materials may be affected by, among other things, energy, steel and other commodity prices; tariffs and duties on imported materials; foreign currency exchange rates; the general business cycle and global demand. During 2009, the prices of many raw materials declined; however, we expect to see prices increase in 2010. Higher prices and lower availability of chemicals, steel and other raw materials used in our business may adversely impact future period sales and margins. Our Drilling Products and Artificial Lift segments purchase the principal raw material and steel on the open market. Except for a few chemical additives, the raw materials are available in most cases from several suppliers at market prices. Where we can, we use multiple suppliers, both domestically and internationally, for our key raw materials purchases.

We also maintain a three to six month supply of key mud-motor inventory parts that are primarily sourced from China as well as an equivalent amount of stock of parts within our Artificial Lift segment. This inventory stock position approximates the lead time required to secure these parts in order to avoid disruption of service to our customers.

Government Regulations

We are subject to federal, state and local environmental and occupational safety and health laws and regulations in the United States and other countries in which we do business. We are subject to numerous environmental, legal, and regulatory requirements related to our operations worldwide. We strive to comply fully with these requirements and are not aware of any material instances of noncompliance. In the United States, these laws and regulations include, among others:

- the Comprehensive Environmental Response, Compensation and Liability Act;
- the Resource Conservation and Recovery Act;
- the Clean Air Act;
- the Federal Water Pollution Control Act; and
- the Toxic Substances Control Act.

In addition to the federal laws and regulations, states and other countries where we do business may have numerous environmental, legal, and regulatory requirements by which we must abide. We evaluate and address the environmental impact of our operations by assessing and remediating contaminated properties in order to avoid future liabilities and comply with environmental, legal, and regulatory requirements. Many of the products

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within our Chemicals and Logistics segment are considered hazardous or flammable. If a leak or spill occurs in connection with our operations, we could incur material costs, net of insurance, to remediate any resulting contamination. On occasion, we are involved in specific environmental litigation and claims, including the remediation of properties we own or have operated, as well as efforts to meet or correct compliance-related matters. We do not expect costs related to these remediation requirements to have a material adverse effect on our consolidated financial position or our results of operations.

Employees

As of March 16, 2010, we had approximately 320 employees worldwide. None of our employees are covered by collective bargaining agreements and our labor relations are generally good. In certain international locations, changes in staffing or work arrangements may need approval of local works councils or other bodies.

Available Information

We maintain a web site at *www.flotekind.com*. We make available, free of charge, on the Investor Relations section of our web site, our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file or furnish such materials to the SEC. Additionally, our corporate governance materials, including governance guidelines; the charters of the Audit, Compensation, and Governance and Nominating Committees; and the code of conduct may also be found under the Investor Relations section of our web site at *www.flotekind.com*. A copy of the foregoing corporate governance materials is available upon written request.

You may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street NE, Washington, DC 20549. You may obtain information regarding the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet website at *www.sec.gov* that contains reports and other information regarding registrants that file electronically with the SEC, including us.

We submitted our 2009 annual CEO certification with the New York Stock Exchange (NYSE) on July 9, 2009. The certification was not qualified in any respect. Additionally, we filed with this Form 10-K the principal executive officer and principal financial officer certifications required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

Information with respect to our executive officers and directors is incorporated herein by reference to information included in the Proxy Statement for our 2010 Annual Meeting of Stockholders.

We have disclosed and intend to continue to disclose any changes or amendments to our code of ethics or waivers from our code of ethics applicable to our chief executive officer and chief financial officer by controller by posting such changes or waivers to our website.

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Item 1A. Risk Factors.

This document, our other filings with the SEC, and other materials released to the public contain forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. See Forward-Looking Statements at the beginning of this Annual Report on Form 10-K. These forward-looking statements may discuss our prospects, expected revenue, expenses and profits, strategies for our operations and other subjects, including conditions in the oilfield service and oil and natural gas industries and in the United States and international economy in general.

Our forward-looking statements are based on assumptions that we believe to be reasonable, but that may not prove to be accurate. All of our forward-looking information is, therefore, subject to risks and uncertainties that could cause actual results to differ materially from the results expected. Although it is not possible to identify all factors, these risks and uncertainties include the risk factors discussed below.

Risks Related to Our Business

We have not had profitable operations during 2009 and may not be profitable in 2010.

We have experienced net losses during the last two fiscal years, including a loss in each of the four quarters of 2009. There can be no assurance that we will be able to successfully execute our plan of operations for 2010, and that even if we are successful in execution of our plan, that we will be profitable in 2010.

Demand for the majority of our services is substantially dependent on the levels of expenditures by the oil and gas industry. Current global economic conditions continue to result in low oil and gas prices. If current global economic conditions and the availability of credit worsen or continue for an extended period, this could reduce our customers levels of expenditures and have a significant adverse effect on our revenue, margins and overall operating results.

The current global credit and economic environment has reduced worldwide demand for energy and resulted in depressed crude oil and natural gas prices. A substantial or extended decline in oil and natural gas prices can reduce our customers activities and their spending on our services and products. Demand for the majority of our services substantially depends on the level of expenditures by the oil and gas industry for the exploration, development and production of crude oil and natural gas reserves. These expenditures are sensitive to oil and natural gas prices and generally dependent on the industry s view of future oil and gas prices. During the current worldwide deterioration in the financial and credit markets, demand for oil and gas has reduced dramatically and oil and gas prices have fallen, causing some of our customers to reduce or delay their oil and gas exploration and production spending. This has reduced the demand for our services and exerted downward pressure on the prices that we charge. If economic conditions do not improve, it could result in further reductions of exploration and production expenditures by our customers, causing further declines in the demand for our services and products. This could result in a significant adverse effect on our operating results. Furthermore, it is difficult to predict how long the economic downturn will continue, to what extent it might worsen, and to what extent this will continue to affect us.

The reduction in cash flows being experienced by our customers resulting from declines in commodity prices, together with the reduced availability of credit and increased costs of borrowing due to the tightening of the credit markets, could have significant adverse effects on the financial condition of some of our customers. This could result in project modifications, delays or cancellations, general business disruptions, and delay in, or nonpayment of, amounts that are owed to us, which could have a significant adverse effect on our results of operations and cash flows. Additionally, our suppliers could be negatively impacted by current global economic conditions. If certain of our suppliers were to experience significant cash flow issues or become insolvent as a result of such conditions, it could result in a reduction or interruption in supplies or a significant increase in the price of supplies, and adversely impact our results of operations and cash flows.

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The prices for oil and natural gas are subject to a variety of additional factors, including:

- demand for energy, which is affected by worldwide population growth, economic development and general economic and business conditions;
- the ability of the Organization of Petroleum Exporting Countries (OPEC) to set and maintain production levels for oil;
- oil and gas production by non-OPEC countries;
- availability and quantity of natural gas storage;
- LNG import volume and pricing;
- pipeline capacity to key markets;
- political and economic uncertainty and socio-political unrest;
- the level of worldwide oil exploration and production activity;
- the cost of exploring for, producing and delivering oil and gas;
- technological advances affecting energy consumption; and
- weather conditions.

Our business depends primarily on domestic spending by the oil and gas industry, and this spending and our business may be adversely affected by industry conditions or by new or increased government regulations that are beyond our control.

We depend primarily on our customers willingness to make operating and capital expenditures to explore for, develop and produce oil and gas in the United States. Customers expectations of market prices for oil and gas may curtail spending thereby reducing demand for our products and services. Industry conditions in the United States are influenced by numerous factors over which we have no control, such as the supply of and demand for oil and gas, domestic and international economic conditions, political instability in oil and gas producing countries and merger and divestiture activity among oil and gas producers. The volatility of the oil and gas industry and the consequent effect on exploration and production activity could adversely affect the level of drilling and production activity by some of our customers. One indication of drilling and production activity and spending is rig count, which the company monitors to gauge market conditions. A reduction in drilling may cause a decline in the demand for, or adversely affect the price of, our products and services. Reduced discovery rates of new oil and gas reserves in our market areas could also have a negative long-term impact on our business, even in an environment of stronger oil and gas prices. In addition, domestic demand for oil and gas may be uniquely affected by public attitudes regarding drilling in environmentally sensitive areas, vehicle emissions and other environmental standards, alternative fuels, taxation of oil and gas and excess profits of oil and gas companies, and the potential changes in governmental regulation and policy that may result from such public attitudes.

We may not be able to generate sufficient cash flows, to meet our debt service obligations or other liquidity needs, and we may not be able to successfully negotiate waivers or a new credit agreement to cure any covenant violations under our current credit agreements.

On several occasions we have failed to meet, or have projected that we would in the future fail to meet, the financial covenant requirements in our bank credit facility. We have been required on these occasions to seek waivers of such covenant violations and amendments to our bank credit facility to modify these covenants. Most recently, we were not in compliance with certain of the financial covenants in our bank credit agreement as of December 31, 2009.

Our ability to generate sufficient cash flows from operations to make scheduled payments or mandatory prepayments on our current debt obligations and other future debt obligations we may incur will depend on our future financial performance, which may be affected by a range of economic, competitive, regulatory and industry factors, many of which are beyond our control. If as a result of our financial performance or other events we violate the financial covenants in our debt agreements or are unable to generate sufficient cash flows or otherwise obtain the funds required to make principal and interest payments on our indebtedness, we may have to seek waivers of these covenants from our lenders or undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital expenditures or seeking to raise additional capital through the issuance of debt securities or other securities. We cannot assure you that we will be able to obtain any required waivers from our lenders or that we will be able to accomplish any necessary refinancing, sale of assets or issuance of securities on terms that are acceptable. Our inability to obtain any required waivers, to generate sufficient cash flows to satisfy such obligations, or to refinance our obligations on commercially reasonable terms, would have an adverse effect on our business, financial condition and results of operations.

The tightening of the credit markets or a downgrade in our credit ratings could increase our borrowing costs and make it more difficult for us to access funds, to refinance our existing indebtedness, to enter into agreements for new indebtedness or to obtain funding through the issuance of securities. If such conditions were to persist, we would seek alternative sources of liquidity, but may not be able to meet our obligations as they become due.

Our debt agreements also contain representations, warranties, fees, affirmative and negative covenants, and default provisions. A breach of any of these covenants could result in a default under these agreements. Upon the occurrence of an event of default under our debt agreements, the lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If the lenders accelerate the repayment of borrowings, we may not have sufficient assets to repay our indebtedness. Also, should there be an event of default, or should we need to obtain waivers following an event of default, we may be subject to higher borrowing costs and/or more restrictive covenants in future periods. Acceleration of any obligation under any of our material debt instruments will permit the holders of our other material debt to accelerate their obligations.

On March 31, 2010, we entered into an Amended and Restated Credit Agreement with new lenders which refinanced our existing bank credit facility. The new credit agreement restricts the payment of dividends and does not contain a revolving line of credit facility, however, it does not contain quarterly or annual covenants. See Item 8. Financial Statements and Supplementary Data, Note 19 of our consolidated financial statements for a description of our new senior credit facility.

Our new senior credit facility contains certain covenants that could limit our flexibility and prevent us from taking certain actions, which could adversely affect our ability to execute our business strategy.

Our new senior credit facility, as amended includes a number of significant restrictive covenants. These covenants could adversely affect us by limiting our ability to plan for or react to market conditions, meet our capital needs and execute our business strategy. The new senior credit facility contains covenants that, among other things, limit our ability, without the consent of the lender, to:

- incur certain types and amounts of additional debt;
- consolidate, merge or sell our assets or materially change the nature of our business;
- pay dividends on capital stock and make restricted payments;
- make voluntary prepayments, or materially amend the terms, of subordinated debt;
- enter into certain types of transactions with affiliates;
- make certain investments;

level of capital expenditures;

make certain capital expenditures; and

incur certain liens.

These covenants may restrict our operating and financial flexibility and limit our ability to respond to changes in our business or competitive activities. If we fail to comply with these covenants, we could be in default, and our new senior credit facility lender could elect to declare all the amounts borrowed and due to them, together with accrued and unpaid interest, to be due and payable. In addition, we or one or more of our subsidiaries could be forced into liquidation or bankruptcy. Any of the foregoing consequences could restrict our ability to execute our business strategy. In addition, such default and acceleration of our new senior credit facility could lead to a default under our convertible senior notes.

Our future success and profitability may be adversely affected if we or our suppliers fail to develop and introduce new and innovative products and services that appeal to our customers.

The oil and gas drilling industry is characterized by continual technological developments that have resulted in, and likely will continue to result in, substantial improvements in the scope and quality of oilfield chemicals, drilling and artificial lift products and services and product function and performance. As a result, our future success depends, in part, upon our and our suppliers continued ability to develop and introduce new and innovative products and services beyond our patented micro-emulsion surfactant line to address the increasingly sophisticated needs of our customers and anticipate and respond to technological and industry advances in the oil and gas drilling industry in a timely manner. If we or our suppliers fail to successfully develop and introduce new and innovative products and services that appeal to our customers, or if new market entrants or our competitors offer such products and services, our revenue and profitability may suffer.

We intend to pursue strategic acquisitions, which could have an adverse impact on our business.

Our business strategy includes growing our business through strategic acquisitions of complementary businesses as our capital structure permits. Acquisitions that we have made or that we may make in the future may entail a number of risks that could adversely affect our business and results of operations. The process of negotiating potential acquisitions or integrating newly acquired businesses into our business could divert our management s attention from other business concerns and could be expensive and time consuming. Acquisitions could expose our business to unforeseen liabilities or risks associated with entering new markets or businesses. Consequently, we might not be successful in integrating our acquisitions into our existing operations, which may result in unforeseen operational difficulties or diminished financial performance or require a disproportionate amount of our management s attention and resources. Even if we are successful in integrating our acquisitions into our existing operations, we may not derive the benefits, such as operational or administrative synergies, that we expect from such acquisitions, which may result in the commitment of capital resources without the anticipated returns on such capital. In addition, we may not be able to continue to identify attractive acquisition opportunities or successfully acquire identified targets. Competition for acquisition opportunities may escalate, increasing our cost of making further acquisitions or causing us to refrain from making additional acquisitions. We also must meet certain financial covenants in order to borrow money under our new senior credit facility to fund future acquisitions and to borrow for other purposes which, if not met, could prevent us from making future acquisitions.

If we do not manage the potential difficulties associated with expansion successfully, our operating results could be adversely affected.

We have grown over the last several years through internal growth and strategic acquisitions of other businesses and assets. We believe our future success depends, in part, on our ability to adapt to market opportunities and changes and to successfully integrate the operations of the businesses we acquire. The following factors could present difficulties to our business going forward:

- lack of sufficient experienced management personnel;
- increased administrative burdens;
- customer retention;
- technology obsolescence and
- increased infrastructure, technological, communication and logistical problems common to large, expansive operations.

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If we do not manage these potential difficulties successfully, our operating results could be adversely affected. In addition, we may have difficulties managing the increased costs associated with growth, which could adversely affect our operating margins.

Our ability to grow and compete in the future will be adversely affected if adequate capital is not available.

The ability of our business to grow and compete depends on the availability of adequate capital, which in turn depends in large part on our cash flow from operations and the availability of equity and debt financing. We cannot assure you that our cash flow from operations will be sufficient or that we will be able to obtain equity or debt financing on acceptable terms or at all to implement our growth strategy. For example, our new senior credit facility restricts our ability to incur additional indebtedness, including borrowings to fund future acquisitions, a key component of our growth strategy. As a result, we cannot assure you that adequate capital will be available to finance our current growth plans, take advantage of business opportunities or respond to competitive pressures, any of which could harm our business.

Our current insurance policies may not be adequate to protect our business from all potential risks.

Our operations are subject to hazards inherent in the oil and gas industry, such as, but not limited to, accidents, blowouts, explosions, fires, severe weather, oil and chemical spills and other hazards. These conditions can cause personal injury or loss of life, damage to property, equipment and the environment, and suspension of oil and gas operations of our customers. Litigation arising from a catastrophic occurrence at a location where our equipment, products or services are being used may result in our being named as a defendant in lawsuits asserting large claims. We maintain insurance coverage that we believe to be customary in the industry against these hazards. However, we do not have insurance against all foreseeable risks, either because insurance is not available or because of high premium costs. In addition, we may not be able to maintain adequate insurance in the future at rates we consider reasonable. As a result, losses and liabilities arising from uninsured or underinsured events could have a material adverse effect on our business, financial condition and results of operations.

We are subject to complex foreign, federal, state and local environmental, health and safety laws and regulations, which expose us to costs and liabilities that could have a material adverse effect on our business, financial condition and results of operations.

Our operations are subject to foreign, federal, state and local laws and regulations relating to, among other things, the protection of natural resources and the environment, health and safety, waste management and transportation of waste and other materials. Our operations, including our Chemicals and Logistics segment, which involves chemical manufacturing, packaging, handling and delivery operations, pose risks of environmental liability that could result in fines and penalties, expenditures for remediation, and liability for property damage and personal injuries. In order to conduct our operations in compliance with these laws and regulations, we must obtain and maintain permits, approvals and certificates from various foreign, federal, state and local governmental authorities. Sanctions for noncompliance with such laws and regulations may include assessment of administrative, civil and criminal penalties, revocation of permits and issuance of corrective action orders. We may incur substantial costs in order to maintain compliance with these existing laws and regulations. Laws protecting the environment generally have become more stringent over time and are expected to continue to do so, which could lead to material increases in costs for future environmental compliance and remediation. In addition, our costs of compliance may increase if existing laws and regulations are amended or reinterpreted. Such amendments or reinterpretations of existing laws or regulations or the adoption of new laws or regulations could curtail exploratory or developmental drilling for and production of oil and gas which, in turn, could limit demand for our products and services. Some environmental laws and regulations may also impose joint and strict liability, which means that in some situations we could be exposed to liability as a result of our conduct that was lawful at the time it occurred or conduct of, or conditions caused by, prior operators or other third parties. Clean-up costs and other damages arising as a result of such laws and regulations could be substantial and have a material adverse effect on our financial condition and results of operations.

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Material levels of our revenue are derived from customers that engage in hydraulic fracturing services, a process that creates fractures extending from the well bore through the rock formation to enable natural gas or oil to move more easily through the rock pores to a production well. Bills pending in the United States House and Senate have asserted that chemicals used in the fracturing process could adversely affect drinking water supplies. The proposed legislation would require the reporting and public disclosure of chemicals used in the fracturing process. This legislation, if adopted, could establish an additional level of regulation at the federal level that could lead to operational delays and increased operating costs. The adoption of any future federal or state laws or implementing regulations imposing reporting obligations on, or otherwise limiting, the hydraulic fracturing process could make it more difficult to complete natural gas and oil wells and could have an adverse impact on our future results of operations, liquidity and financial condition.

Regulation of greenhouse gases and climate change could have a negative impact on our business.

Some scientific studies have suggested that emissions of certain gases, commonly referred to as greenhouse gases and including carbon dioxide and methane, may be contributing to warming of the Earth s atmosphere and other climatic changes. In response to such studies, the issue of climate change and the effect of greenhouse gas emissions, in particular emissions from fossil fuels, is attracting increasing attention worldwide. Legislative and regulatory measures to address concerns that emissions of greenhouse gases are contributing to climate change are in various phases of discussions or implementation at the international, national, regional and state levels.

In 2005, the Kyoto Protocol to the 1992 United Nations Framework Convention on Climate Change, which establishes a binding set of emission targets for greenhouse gases, became binding on the countries that had ratified it. In the United States, federal legislation imposing restrictions on greenhouse gases is under consideration. Proposed legislation has been introduced that would establish an economy-wide cap on emissions of greenhouse gases and would require most sources of greenhouse gas emissions to obtain greenhouse gas emission allowances corresponding to their annual emissions. In addition, the Environmental Protection Agency (the EPA) is taking steps that would result in the regulation of greenhouse gases as pollutants under the Clean Air Act. To date, the EPA has issued (i) a Mandatory Reporting of Greenhouse Gases final rule, effective December 29, 2009, which establishes a new comprehensive scheme requiring operators of stationary sources in the United States emitting more than established annual thresholds of carbon dioxide-equivalent greenhouse gases to inventory and report their greenhouse gas emissions annually; and (ii) an Endangerment Finding final rule, effective January 14, 2010, which states that current and projected concentrations of six key greenhouse gases in the atmosphere, as well as emissions from new motor vehicles and new motor vehicle engines, threaten public health and welfare, allowing the EPA to finalize motor vehicle greenhouse gas standards (the effect of which could reduce demand for motor fuels refined from crude oil). Finally, according to the EPA, the final motor vehicle greenhouse gas standards will trigger construction and operating permit requirements for stationary sources. As a result, the EPA has proposed to tailor these programs such that only large stationary sources will be required to have air permits that authorize greenhouse gas emissions.

Existing or future laws, regulations, treaties or international agreements related to greenhouse gases and climate change, including incentives to conserve energy or use alternative energy sources, could have a negative impact on our operations if such laws, regulations, treaties or international agreements reduce the worldwide demand for oil and natural gas or otherwise result in reduced economic activity generally. In addition, such laws, regulations, treaties or international agreements could result in increased compliance costs or additional operating restrictions, which may have a negative impact on our operations. In addition to potential impacts on our operations directly or indirectly resulting from climate-change legislation or regulations, our operations also could be negatively affected by climate-change related physical changes or changes in weather patterns.

If we are unable to adequately protect our intellectual property rights or are found to infringe intellectual property rights of others our business is likely to be adversely affected.

We rely on a combination of patents, trademarks, non-disclosure agreements and other security measures to establish and protect our intellectual property rights. Although we believe that those measures are reasonably adequate to protect our intellectual property and provide for the continued operation of our business, there can be

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no assurance that the measures we have taken, or may take in the future, will prevent misappropriation of our proprietary information or provide us with a competitive advantage, or that others will not independently develop similar products or services, design around our proprietary or patented technology or duplicate our products or services. Moreover, there can be no assurance that these protections will be available in all cases or will be adequate to prevent our competitors from copying, reverse engineering or otherwise obtaining and using our technology, proprietary rights or products. We have not sought foreign protection corresponding to all of our US intellectual property rights. Consequently, we may not be able to enforce all of our intellectual property rights outside of the United States. Furthermore, the laws of certain countries in which our products are manufactured or marketed may not protect our proprietary rights to the same extent as the laws of the United States. Third parties may seek to challenge, invalidate or circumvent our patents, trademarks, copyrights and trade secrets. In each case, our ability to compete could be significantly impaired.

In addition, some of our products are not protected by issued patents. The issuance of a patent does not guarantee that it is valid or enforceable, so even if we obtain patents, they may not be valid or enforceable against third parties. The issuance of a patent does not guarantee that we have the right to practice the patented invention. Third parties may have blocking patents that could be used to prevent us from marketing our own patented product and practicing our own patented technology.

We have from time to time received, and may in the future receive, communications alleging possible infringement of patents and other intellectual property rights of others. Furthermore, we have in the past, and may in the future, become involved in costly litigation or proceedings brought against us regarding patents or other intellectual property rights. If any such claims are asserted against us, we may seek to obtain a license under the third party s intellectual property rights. We cannot assure you that we will be able to obtain all of the necessary licenses on satisfactory terms, if at all. In the event that we cannot obtain a license, these parties may file lawsuits against us seeking damages (potentially including treble damages) or an injunction against the sale of our products that incorporate allegedly infringed intellectual property or against the operation of our business as presently conducted, which could result in our having to stop the sale of some of our products, increase the costs of selling some of our products, or cause damage to our reputation. The award of damages, including material royalty payments, or the entry of an injunction against the manufacture and sale of some or all of our products, could have a material adverse effect on our results of operations and ability to compete.

We and our customers are subject to risks associated with doing business outside of the United States which may expose us to political risk, foreign exchange risk and other uncertainties.

Revenue from the sale of products to customers outside the United States exceeds 5% of our total annual revenue. We and our customers are subject to certain risks inherent in doing business outside of the United States, including:

- governmental instability;
- war and other international conflicts,;
- civil and labor disturbances;
- requirements of local ownership;
- partial or total expropriation or nationalization;
- currency devaluation; and
- foreign exchange control and foreign laws and policies, each of which may limit the movement of assets or funds or result in the deprivation of contract rights or the taking of property without fair compensation.

Collections and recovery of rental tools from international customers and agents may also prove more difficult due to the uncertainties of foreign law and judicial procedure. We may therefore experience significant difficulty resulting from the political or judicial climate in countries in which we operate or in which our products are used.

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Our international operations must also comply with the Foreign Corrupt Practices Act and other applicable United States laws, and we could be liable under these laws for actions taken by our employees or agents. In addition, from time to time, the United States has passed laws and imposed regulations prohibiting or restricting trade with certain nations, and the United States government could change these laws or enact new laws that could restrict or prohibit us from doing business in certain foreign countries.

Although most of our international revenue is derived from transactions denominated in United States dollars, we have conducted and likely will continue to conduct some business in currencies other than the United States dollar. We currently do not hedge against foreign currency fluctuations. Accordingly, our profitability could be affected by fluctuations in foreign exchange rates. We have no assurance that future laws and regulations will not materially adversely affect our international business.

The loss of certain key customers could have a material adverse effect on our results of operations and could result in a decline in our revenue.

We are dependent on several key customers. During each of the three previous years ended December 31, 2009, over 20% of our consolidated revenues came from three of our customers. Our customer relationships are typically governed by purchase orders or other short-term contracts rather than long-term contracts. The loss of one or more of our key customers could have a material adverse effect on our results of operations and could result in a decline in our revenue.

The loss of certain key suppliers, our inability to secure raw materials on a timely basis, or our inability to pass commodity price increases on to our customers could have a material adverse effect on our ability to service our customer s needs and could result in a loss of customers.

We believe that materials and components used in our servicing and manufacturing operations and purchased for sale are generally available on the open market and from multiple sources. Acquisition and transportation of these raw materials to our facilities can be adversely affected by extreme weather conditions. However, certain raw materials used by the Chemical and Logistics segment in the manufacture of our patented micro-emulsion chemical sales are available from limited sources and disruptions to our suppliers could materially impact our sales. The prices we pay for our raw materials may be affected by, among other things, energy, steel and other commodity prices; tariffs and duties on imported materials; foreign currency exchange rates; the general business cycle and global demand. The Drilling Products and Artificial Lift segments purchase their principal raw materials and steel on the open market and, where we can, we use multiple suppliers, both domestic and international, for our key raw materials purchases.

We also keep a three- to six-month supply of key mud-motor inventory parts that we source from China. This inventory stock position approximates the lead time required to secure these parts, thus potentially avoiding disruption of service to our customers. Our inability to secure these key components in a timely manner at reasonable prices could adversely affect our ability to service our customers. We source the vast majority of our motor parts from a single supplier. As part of our business plan, we are diligently working to develop relationships with backup parts suppliers. If we are unsuccessful in developing these relationships, we may be exposed to disruption of key supplies that could result in a loss of revenues or key customers. Additionally, if our customers were to seek or develop alternative approaches for the products or services we offer, we could suffer a decline in revenue and loss of key customers.

We currently do not hedge our commodity prices. We may not be able to pass along price increases to our customers, which could result in a decline in revenue or operating profit.

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Our inability to develop new products or differentiate our products could have a material adverse effect on our ability to service our customer s needs and could result in a loss of customers.

Our ability to compete in the oilfield services market is dependent on our ability to differentiate our products and services, provide superior quality and service, and maintain a competitive cost structure. Activity levels in our three segments are driven primarily by current and expected commodity prices, drilling rig count, oil and gas production levels, and customer capital spending allocated for drilling and production. The regions in which we operate are highly competitive. Additionally, the continued depressed economy has resulted in the market for our services and that of our competitors to remain contracted. Many other oil and gas service companies are larger than we are and have greater resources than we have. These competitors are better able to withstand industry downturns, compete on the basis of price and acquire new equipment and technologies, all of which could affect our revenue and profitability. These competitors compete with us both for customers and for acquisitions of other businesses. This competition may result in pressure on our operating profit. We believe that competition for our products and services will continue to be intense in the foreseeable future.

If we lose the services of key members of our management, we may not be able to manage our operations and implement our growth strategy effectively.

We depend on the continued service of our Interim President, our Executive Vice President, Finance and Strategic Planning, and our Executive Vice President, Business Development and Special Projects, who possess significant expertise and knowledge of our business and industry. We do not carry key man life insurance on any of these executives. Additionally, we have in place employment agreements with our Interim President and our Executive Vice President, Finance and Strategic Planning. Any loss or interruption of the services of these or other key members of our management could significantly reduce our ability to manage our operations effectively and implement our business plan and strategy, and we cannot assure you that we would be able to find appropriate replacements for key positions should the need arise.

Failure to maintain effective disclosure controls and procedures and internal controls over financial reporting could have an adverse effect on our operations and the trading price of our common stock.

Effective internal controls are necessary for us to provide reliable financial reports, effectively prevent fraud and operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results could be harmed. If we are unable to maintain effective disclosure controls and procedures and internal controls over financial reporting, we may not be able to provide reliable financial reports or prevent fraud, which, in turn could harm our operating results or cause us to fail to meet our reporting obligations. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock, limit our ability to access the capital markets in the future and require us to incur additional costs to improve our internal control systems and procedures.

At December 31, 2009, we reported that we identified control deficiencies that constituted a material weakness in connection with preparation of our financial statements. We did not maintain an effective control environment during 2009. We have implemented remediation efforts to address the identified material weakness and to enhance our overall financial control environment. We cannot assure you that our remediation efforts will be successful.

We did not file our Quarterly Reports on Form 10-Q for the quarters ended June 30 and September 30, 2009 in a timely manner. We filed requests for an extension of time to file these reports and subsequently filed our Form 10-Qs within the extension period. A failure to file our reports timely with the SEC will result in our inability to file registration statements using any registration form other than Form S-1, which is more time consuming and costly to prepare, for a period of time. This limitation, if realized, may hamper our ability to raise capital in the financial markets. Additionally, the late filing of reports with the SEC would result in a technical default of our various debt obligations.

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Risks Related to Our Industry

The extension of the worldwide recession could continue to have an adverse effect on exploration and production activity and result in lower demand for our services and products.

The current worldwide financial and credit crisis has reduced the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. The shortage of liquidity and credit, combined with continued losses and/or depressed conditions in the worldwide equity markets, continue to extend the worldwide economic recession. Sluggish economic activity caused by the current sustained recession continues to maintain worldwide demand for energy at depressed levels resulting in low oil and natural gas prices. Forecasted crude oil prices for 2010 have not improved significantly. Demand for our services and products depends on oil and natural gas industry activity and expenditure levels that are directly affected by trends in oil and natural gas prices. Demand for our services and products is particularly sensitive to the level of exploration, development, and production activity of, and the corresponding capital spending by, oil and natural gas companies, including national oil companies. One indication of drilling and production activity and spending is rig count, which we monitor to gauge market conditions. Any prolonged reduction in oil and natural gas prices or drop in rig count will depress the immediate levels of exploration, development, and production activity. Perceptions of longer-term lower oil and natural gas prices by oil and gas companies can similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Lower levels of activity result in a corresponding decline in the demand for our oil and natural gas well services and products, which could have a material adverse effect on our revenue and profitability.

Continuation of the global credit crisis could have an adverse impact on our customers and on our dealings with lenders, insurers and financial institutions.

Events in the global credit markets have significantly impacted the availability of credit and financing costs for many of our customers. Many of our customers finance their drilling and production programs through third-party lenders. The reduced availability and increased costs of borrowing could cause our customers to reduce their spending on drilling programs, thereby reducing demand and potentially resulting in lower prices for our products and services. Also, the current credit and economic environment could significantly impact the financial condition of some customers over a period of time, leading to business disruptions and restricting their ability to pay us for services performed, which could negatively impact our results of operations and cash flows. In addition, an increasing number of financial institutions and insurance companies have reported significant deterioration in their financial condition. Our forward-looking statements assume that our lenders, insurers and other financial institutions will be able to fulfill their obligations under our various credit agreements, insurance policies and contracts. If any of our significant financial institutions were unable to perform under such agreements, and if we were unable to find suitable replacements at a reasonable cost, our results of operations, liquidity and cash flows could be adversely impacted.

A period of prolonged depressed oil and natural gas prices may result in reduced demand for our products and services which may adversely affect our business, financial condition and results of operations.

The markets for oil and natural gas have historically been extremely volatile. Such volatility in oil and gas prices, or the perception by our customers of unpredictability in oil and natural gas prices, adversely affects the spending patterns in our industry. In some circumstances this volatility may continue to prolong depressed oil and gas prices. We anticipate that our current markets will continue to be volatile in the future and may continue to prolong depressed oil and gas prices. The demand for our products and services is, in large part, driven by current and anticipated oil and gas prices and the related general levels of production spending and drilling activity. In particular, depressed oil and gas prices may cause a decline in exploration and drilling activities. This, in turn, could result in lower demand for our products and services and may cause lower prices for our products and services. As a result, a prolonged decline in oil or natural gas prices may adversely affect our business, financial condition and results of operations.

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Competition from new and existing competitors within our industry could have an adverse effect on our results of operations.

The oil and gas industry is highly competitive and fragmented. Our principal competitors include numerous small companies capable of competing effectively in our markets on a local basis as well as a number of large companies that possess substantially greater financial and other resources than we do. Our larger competitors may be able to devote greater resources to developing, promoting and selling their products and services. We may also face increased competition due to the entry of new competitors including current suppliers that decide to sell their products and services directly to our customers. As a result of this competition, we may experience lower sales or greater operating costs, which may have an adverse effect on our margins and results of operations.

Our industry has experienced a high rate of employee turnover. Any difficulty we experience attracting or retaining personnel or agents could adversely affect our business.

We operate in an industry that has historically been highly competitive in securing qualified personnel with the required technical skills and experience. Our services require skilled personnel who can perform physically demanding work. Due to industry volatility and the demanding nature of the work, workers may choose to pursue employment in fields that offer a more desirable work environment at wages that are competitive with ours. As a result, we may not be able to find enough labor to meet our needs, which could limit our growth. In addition, the cost of attracting and retaining qualified personnel has increased over the past several years due to competition, and we expect it will continue to increase in the future. In order to attract and retain qualified personnel we may be required to offer increased wages and benefits. If we are not able to increase the prices of our products and services to compensate for increases in compensation, or if we are unable to attract and retain qualified personnel, our operating results could be adversely affected.

Severe weather could have a material adverse impact on our business.

Our business could be materially and adversely affected by severe weather. Hurricanes, tropical storms, blizzards and cold weather and other weather hazards may cause the curtailment of services, damages to our equipment and facilities, interruptions in the transportation of our products and materials in accordance with contract schedules and loss of productivity. If our customers are unable to operate or are required to reduce their operations due to severe weather, and as a result curtail the purchases of our products and services, our business could be materially adversely affected.

A terrorist attack or armed conflict could harm our business.

Terrorist activities, anti-terrorist efforts and other armed conflict involving the United States may adversely affect the United States and global economies and could prevent us from meeting our financial and other obligations. We may experience loss of business, delays or defaults in payments from payers, or disruptions of fuel supplies and markets if pipelines, production facilities, processing plants and refineries are direct targets or indirect casualties of an act of terror or war. In addition, such activities could reduce the overall demand for oil and natural gas which, in turn, could reduce the demand for our products and services. We have implemented certain security measures in response to the threat of terrorist activities. Terrorist activities and the threat of potential terrorist activities and any resulting economic downturn could adversely affect our results of operations, impair our ability to raise capital or otherwise adversely impact our ability to execute our business strategy.

Risks Related to Our Securities

The market price of our common stock has been and may continue to be volatile.

The market price of our common stock has historically been subject to significant fluctuations. The following factors, among others, could cause the price of our common stock in the public market to fluctuate significantly:

- variations in our quarterly results of operations;

- changes in market valuations of companies in our industry;
- fluctuation in stock market prices and volume;
- fluctuation in oil and natural gas prices;
- issuance of common stock or other securities in the future;
- the addition or departure of key personnel; and
- announcements by us or our competitors of new business, acquisitions or joint ventures.

The stock market has experienced extreme price and volume fluctuations in recent years that have significantly affected the prices of the common stock of many companies, including companies in our industry. The changes can occur without regard to specific operating performance. The price of our common stock could continue to fluctuate based upon factors that have little to do with our company, and these fluctuations could materially reduce our stock price. Class action lawsuits have frequently been brought against companies following periods of volatility in the market price of their common stock. Currently, we have been named in a legal case of this type, which could be expensive and divert management s attention and company resources, and have a material adverse effect on our business, financial condition and results of operations.

An active market for our common stock may not continue to exist or may not continue to exist at current trading levels.

Trading volume for our common stock has historically been low when compared to companies with larger market capitalizations. We cannot assure you that an active trading market for our common stock will develop or be sustained. Sales of significant amounts of shares of our common stock in the public market could lower the market price of our stock.

If we do not meet the New York Stock exchange continued listing requirements, our common stock may be delisted, which could have an adverse impact on the liquidity and market price of our common stock.

Our common stock is currently listed on the New York Stock Exchange (NYSE). Under the NYSE s continued listing standards, a company is considered to be below compliance standards if, among other things, (i) both its average global market capitalization is less than $50 million over a 30 trading-day period and its stockholders equity is less than $50 million; (ii) its average global market capitalization is less than $15 million over a 30 trading-day period, which will result in immediate initiation of suspension procedures; or (iii) the average closing price of a listed security is less than $1.00 over a consecutive 30 trading-day period. We have received notification from the NYSE that we are not in compliance with the NYSE s continued listing requirements because both our 30 trading-day average global market capitalization and our last reported stockholders equity were below the respective $50 million requirements. When a listed company s stock falls below the market capitalization and stockholders equity standard, a company is considered below criteria, and the company is permitted to submit a business plan demonstrating its ability to return to compliance with these continued listing standards within 18 months of receipt of the NYSE notification. We have submitted a plan of action to the NYSE which we believe will allow us to once again achieve compliance with the minimum listing requirements of the NYSE no later than June 28, 2011. During the plan implementation process, our common stock will continue to be listed on the NYSE, subject to our compliance with other NYSE continued listing requirements. On March 29, 2010, the NYSE agreed to accept our plan of action.

If our shares of common stock are delisted from the NYSE and we are unable to list our shares of common stock on another U.S. national or regional securities exchange or have our shares of common stock quoted on an established over-the-counter trading market in the United States within 30 days, we will be required to make an offer to repurchase all of our outstanding convertible notes at a price of 100% of the principal amount thereof plus accrued and unpaid interest. We may not have sufficient funds to pay the purchase price for any convertible notes that are tendered to us if we are required to make this offer to repurchase.

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A delisting of our common stock could also negatively impact us by: (i) reducing the liquidity and market price of our common stock; (ii) reducing the number of investors willing to hold or acquire our common stock, which could negatively impact our ability to raise equity financing; and (iii) decreasing the amount of news and analyst coverage for us. In addition, we may experience other adverse effects, including, without limitation, the loss of confidence in us by current and prospective suppliers, customers, employees and others with whom we have or may seek to initiate business relationships, and our ability to attract and retain personnel by means of equity compensation could be impaired.

We have no plans to pay dividends on our common stock, and, therefore, investors will have to look to stock appreciation for return on their investments.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain all future earnings to fund the development and growth of our business. Any payment of future dividends will be at the discretion of our board of directors and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends and other considerations that the board of directors deems relevant. Certain covenants of our new senior credit facility restrict the payment of dividends without the prior written consent of the lender. Investors must rely on sales of their common stock after price appreciation, which may never occur, in order to realize a return on their investment.

Certain anti-takeover provisions of our charter documents and under Delaware law could discourage or prevent others from acquiring our company, which may adversely affect the market price of our common stock.

Our certificate of incorporation and bylaws contain provisions that:

- permit us to issue, without stockholder approval, up to 100,000 shares of preferred stock, in one or more series and, with respect to each series, to fix the designation, powers, preferences and rights of the shares of the series;

- prohibit stockholders from calling special meetings;

- limit the ability of shareholders to act by written consent;

- prohibit cumulative voting; and

- require advance notice for stockholder proposals and nominations for election to the board of directors to be acted upon at meetings of stockholders.

In addition, Section 203 of the Delaware General Corporation Law limits business combinations with owners of more than 15% of our stock that have not been approved by the board of directors. These provisions and other similar provisions make it more difficult for a third party to acquire us without negotiation. Our board of directors could choose not to negotiate with an acquirer that it did not feel was in our strategic interest. If the acquirer were discouraged from offering to acquire us or prevented from successfully completing a hostile acquisition by the anti-takeover measures, you could lose the opportunity to sell your shares at a favorable price.

Future issuance of additional shares of our common stock could cause dilution of ownership interests and adversely affect our stock price.

We may in the future issue our previously authorized and unissued shares of common stock, resulting in the dilution of the ownership interests of our current stockholders. We are currently authorized to issue 80,000,000 shares of common stock, of which 24,168,292 were issued as of December 31, 2009. Additional shares are subject to future issuance through the exercise of options previously granted under our equity compensation plans or through exercise of options that are still available for future grant. The potential

issuance of such additional shares of common stock, whether directly or pursuant to any conversion right of our

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convertible senior notes or other convertible securities, including our convertible preferred stock, we may issue in the future, may create downward pressure on the trading price of our common stock. We may also issue additional shares of our common stock or other securities that are convertible into or exercisable for common stock for raising capital or other business purposes. Future sales of substantial amounts of common stock, or the perception that sales could occur, could have a material adverse effect on the price of our common stock.

On March 31, 2010, in connection with the Amended and Restated Credit Agreement related to our new senior credit facility, we issued 3,431,133 shares of common stock to pay a portion of the commitment fee due at closing. On March 31, 2010, in connection with the Exchange Agreement involving our senior convertible notes, we expect to issue up to 1,568,867 shares of common stock to satisfy the common stock component of the exchange.

We may issue additional shares of preferred stock or debt securities with greater rights than our common stock.

In August 2009, we sold convertible preferred stock with warrants to purchase additional shares of our common stock. Holders of the convertible preferred stock may convert their preferred shares into shares of our common stock at any time, and we may automatically convert the preferred shares into our common shares if certain conditions relating to the closing price of our common stock are met after February 12, 2010. All warrants are exercisable as of December 31, 2009. The convertible preferred stock and warrants have the right to acquire a total of 17,436,512 shares of our common stock.

Subject to the rules of the New York Stock Exchange, our certificate of incorporation authorizes our board of directors to issue one or more additional series of preferred stock and set the terms of the preferred stock without seeking any further approval from holders of our common stock. Currently, there are 100,000 preferred shares authorized, with 16,000 shares issued. Any preferred stock that is issued may rank senior to our common stock in terms of dividends, priority and liquidation premiums, and may have greater voting rights than holders of our common stock.

Also, holders of our convertible senior notes are preferred in right of payment to the holders of our preferred and common stock.

On March 31, 2010, in connection with the Exchange Agreement, we expect to exchange $40 million of convertible senior notes for the aggregate consideration of $36 million in new convertible senior secured notes and $2 million in shares of our common stock.

Disclaimer of Obligation to Update

Except as required by applicable law or regulation, we assume no obligation (and specifically disclaim any such obligation) to update these Risk Factors or any other forward-looking statements contained in this Annual Report to reflect actual results, changes in assumptions or other factors affecting such forward-looking statements.

Item 1B. Unresolved Staff Comments.

Not applicable.

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Item 2. Properties.

As of February 28, 2010, we operated 39 manufacturing and warehouse facilities in nine U.S. states. We own 13 of these facilities with the remainder being leased with initial lease terms that expire at various years through 2032. In addition, our corporate office is a leased facility located in Houston, Texas. The following table sets forth the locations of these facilities:

Segment	Owned/Leased	Location
Chemicals and Logistics	Leased	Raceland, Louisiana
	Owned	Norman, Oklahoma
	Owned	Marlow, Oklahoma
	Owned	Carthage, Texas
	Owned	Wheeler, Texas
	Leased	Raceland, Louisiana
	Leased	Pocola, Oklahoma
	Leased	Wilburton, Oklahoma
	Leased	The Woodlands, Texas
Drilling Products	Owned	Chickasha, Oklahoma
	Owned	Oklahoma City, Oklahoma
	Owned	Houston, Texas
	Owned	Mason, Texas
	Owned	Midland, Texas
	Owned	Robstown, Texas
	Owned	Vernal, Utah
	Owned	Evanston, Wyoming
	Leased	Grand Junction, Colorado
	Leased	Bossier City, Louisiana
	Leased	Lafayette, Louisiana (2 locations)
	Leased	Shreveport, Louisiana
	Leased	Farmington, New Mexico
	Leased	Tioga, North Dakota
	Leased	Corpus Christi, Texas

	Leased	Granbury, Texas
	Leased	Grand Prairie, Texas
	Leased	Houston, Texas
	Leased	Midland, Texas (3 locations)
	Leased	Odessa, Texas
	Leased	Pittsburgh, Pennsylvania
	Leased	Towanda, Pennsylvania
	Leased	Casper, Wyoming
Artificial Lift	Owned	Gillette, Wyoming
	Leased	Farmington, New Mexico
	Leased	Houston, Texas
General Corporate	Leased	Houston, Texas

We consider our facilities to be in good condition and suitable for the conduct of our business.

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Item 3. Legal Proceedings.

Class Action Litigation

On August 7, 2009, a class action suit was commenced in the United States District Court for the Southern District of Texas on behalf of purchasers of our common stock between May 8, 2007 and January 23, 2008, inclusive, seeking to pursue remedies under the Securities Exchange Act of 1934. The complaint alleges that, throughout the time period indicated, we failed to disclose material adverse facts about our true financial condition, business and prospects. Specifically, the complaint alleges that as a result of the failure to disclose the adverse facts, our positive statements concerning guidance and prospects were lacking in a reasonable basis at all relevant times. The plaintiffs filed an amended complaint on February 4, 2010 alleging misleading statements and material omissions in connection with our earnings guidance for 2007 and the fourth quarter of 2007. The amended complaint does not quantify the alleged actual damages.

Since August 7, 2009, several other class action suits have been commenced by others concerning the foregoing matters.

We intend to mount a vigorous defense to these claims. Discovery has not yet commenced. At this time, we are unable to reasonably estimate the outcome of this litigation.

Other Litigation

We are subject to routine litigation and other claims that arise in the normal course of business. We are not aware of any pending or threatened lawsuits or proceedings which would have a material effect on our financial position, results of operations or liquidity.

Item 4. Reserved.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol FTK. As of the close of business on March 16, 2010, there were 24,215,283 shares of common stock outstanding held by approximately 10,000 holders of record. The last reported sale price of the common stock on the NYSE on March 16, 2010 was $1.43.

As of December 27, 2007, our common stock began trading on the NYSE under the stock ticker symbol FTK. The following table sets forth, on a per share basis for the periods indicated, the high and low closing sales prices of our common stock reported by the NYSE. These prices do not include retail mark-ups, mark-downs or commissions.

Fiscal 2009	High	Low
4th Quarter	$ 2.41	$ 0.96
3rd Quarter	$ 2.59	$ 1.38
2nd Quarter	$ 3.30	$ 1.23
1st Quarter	$ 5.00	$ 1.21

Fiscal 2008	High	Low
4th Quarter	$ 10.68	$ 1.88
3rd Quarter	$ 20.95	$ 10.36
2nd Quarter	$ 22.82	$ 15.30
1st Quarter	$ 36.07	$ 14.52

We have never declared or paid cash dividends on our common stock. While we regularly assess our dividend policy, we have no current plans to declare a dividend and we intend to continue to use our earnings and other cash in the maintenance and expansion of our business. In addition, our new senior credit facility contains provisions that limit our ability to pay cash dividends on our common stock.

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Stock Performance Graph

The performance graph below illustrates a five year comparison of cumulative total returns based on an initial investment of $100 in our common stock, as compared with the Russell 2000 Index and the Philadelphia Oil Services Index for the period 2005 through 2009. The performance graph assumes $100 invested on December 31, 2004 in each of our common stock, the Russell 2000 Index and the Philadelphia Oil Service Index, and that all dividends were reinvested.

	Years Ended December 31,					
	2004	2005	2006	2007	2008	2009
Flotek Industries, Inc.	$ 100	$ 434	$ 652	$ 1,676	$ 117	$ 62
Russell 2000 Index	$ 100	$ 105	$ 124	$ 122	$ 81	$ 103
Philadelphia Oil Service Index (OSX)	$ 100	$ 150	$ 171	$ 251	$ 102	$ 166

The foregoing graph shall not be deemed to be filed as part of this Form 10-K and does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, as amended, except to the extent that we specifically incorporate the graph by reference.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information regarding our equity securities that are authorized for issuance under individual stock option compensation agreements:

Equity Compensation Plan Information

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the Column (a)) (c)
Equity compensation plans approved by security holders	1,605,398	$ 5.13	304,022
Equity compensation plans not approved by security holders			
Total	1,605,398	$ 5.13	304,022

Issuer Purchases of Equity Securities

During the fourth quarter of 2009, we purchased 22,491 shares of our common stock attributable to withholding to satisfy the payment of tax obligations related to the vesting of restricted shares.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchase as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1, 2009 to October 31, 2009		$		
November 1, 2009 to November 30, 2009				
December 1, 2009 to December 31, 2009	22,491	1.02		
Total	22,491	$ 1.02		

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Item 6. Selected Financial Data.

The following table sets forth certain selected historical financial data and should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data, which are included elsewhere herein. The selected operating and financial position data as of and for each of the five years ended December 31, 2009 have been derived from our audited consolidated financial statements, some of which appear elsewhere in this Annual Report on Form 10-K. During the annual periods 2005 through 2008, we effected a number of business combinations and other transactions that materially affect the comparability of the information set forth below. During 2009 and 2008, we recorded impairment charges for goodwill and other intangible assets of $18.5 million and $67.7 million, respectively. Additionally, on July 11, 2007, the Company effected a two-for-one stock split in the form of a 100% stock dividend to the stockholders of record on July 3, 2007. All share and per share information has been retroactively adjusted to reflect the stock split.

	As of and for the Years Ended December 31,				
	2009 (Restated)	2008	2007	2006	2005
	(in thousands, except per share data)				
Operating Data					
Revenue	$ 112,550	$ 226,063	$ 158,008	$ 100,642	$ 52,869
Income (loss) from operations	(33,103)	(30,751)	29,686	18,853	10,114
Net income (loss)	(50,240)	(34,161)	16,727	11,350	7,720
Earnings (loss) per share Basic	(2.68)	(1.78)	0.91	0.66	0.53
Earnings (loss) per share Diluted	(2.68)	(1.78)	0.88	0.61	0.47
Financial Position Data					
Total assets	178,610	234,575	160,793	82,890	52,158
Convertible senior notes and long-term debt, less discount and current portion	119,190	120,281	52,377	8,185	7,277
Stockholders equity	26,905	65,721	77,461	53,509	35,205

The 2009 amounts have been restated for a change in accounting for the fair value of the detachable warrants.

The table above reflects the results of the following acquisitions of companies or their assets from their respective dates of acquisitions in the following years:

2008

Teledrift, Inc.;

2007

Triumph Drilling Tools, Inc., CAVO Drilling Motors Ltd Co., and Sooner Energy Service, Inc.;

2006

Can-Ok Oil Field Services, Inc., Total Well Solutions, LLC, LifTech, LLC; and

2005

Phoenix E&P Technology, LLC, Spidle Sales and Services, Inc., Harmon s Machine Works, Inc. and Precision-LOR, Ltd.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. The following information contains forward-looking statements, which are subject to risks and uncertainties. Should one or more of these risks or uncertainties materialize, our actual results may differ from those expressed or implied by the forward-looking statements. See Forward-Looking Statements at the beginning of this Annual Report on Form 10-K.

Executive Summary

We are a global technology-driven growth company serving the oil, gas, and mining industries by providing oilfield products, services and equipment. We operate in select domestic and international markets including the Gulf Coast, the Southwest and the Rocky Mountains, Northeastern and Mid-Continental United States, Canada, Mexico, Central America, South America, Europe, Africa and Asia. We market our products domestically and internationally in over 20 countries. The customers for our products and services include the major integrated oil and natural gas companies, independent oil and natural gas companies, pressure pumping service companies and state-owned national oil companies. Our ability to compete in the oilfield services market is dependent on our ability to differentiate our products and services, provide superior quality and service, and maintain a competitive cost structure. Our operations are driven primarily by natural gas and to a lesser extent oil well drilling activity, the depth and drilling conditions of such wells, the number of well completions and the level of work-over activity in North America. Drilling activity, in turn, is largely dependent on the price of natural gas and crude oil and the volatility and expectations of future natural gas and oil prices. Our results of operations also depend heavily on the pricing we receive from our customers, which depends on activity levels, availability of equipment and other resources, and competitive pressures. These market factors often lead to volatility in our revenue and profitability. Historical market conditions are reflected in the table below:

	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
Average Active Drilling Rigs					
United States	1,089	1,879	1,768	(42.0)%	6.3%
Canada	221	381	344	(42.0)%	10.8%
Total North America	1,310	2,260	2,112	(42.0)%	7.0%
Vertical rigs (U.S.)	433	954	999	(54.6)%	(4.5)%
Horizontal rigs (U.S.)	455	553	393	(17.7)%	40.7%
Directional rigs (U.S.)	201	372	376	(46.0)%	