FLOTEK INDUSTRIES INC/CN/
Form 10-K
March 16, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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)*

(713) 849-9911

(Registrant's telephone number, including area code)

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	**New York Stock Exchange, Inc.**
Due 2028 and guarantees	

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:		
NONE		
Indicate by check mark if	**YES**	**NO**
• the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.		
• if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.		
• 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.		
• 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).		
• 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.		
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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 (Do not check if a smaller reporting company)	Smaller reporting company	
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).				

The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2010 (based on the closing market price on the New York Stock Exchange Composite Tape on June 30, 2010) was $35,619,237.

At March 7, 2011, there were 43,034,446 outstanding shares of the registrant's common stock, $0.0001 par value.

DOCUMENTS INCORPORATED BY REFERENCE

The information required in Part III of the Annual Report on Form 10-K is incorporated by reference to the registrant's definitive proxy statement to be filed pursuant to Regulation 14A for the registrant's 2011 Annual Meeting of Stockholders.

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Forward-Looking Statements

This Annual Report on Form 10-K (the “Annual Report”), and in particular, Item 7- “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains “forward-looking statements” within the meaning of the safe harbor provisions, 15 U.S.C. § 78u-5, of the Private Securities Litigation Reform Act of 1995 (the “Reform Act”). Forward-looking statements are not historical facts but instead represent the Company’s current assumptions and beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside of the Company’s control. The forward-looking statements contained in this Annual Report are based upon information available as of the date of this Annual Report. The forward-looking statements relate to future industry trends and economic conditions, forecast performance or results of current and future initiatives and the outcome of contingencies and other uncertainties that may have a significant impact on the Company’s business, future operating results and liquidity. These forward-looking statements generally are identified by words such as “anticipate,” “believe,” “estimate,” “continue,” “intend,” “expect,” “plan,” “forecast,” “project” and similar expressions, or future-tense or conditional constructions such as “ “may,” “should,” “could,” etc. The Company cautions that these statements are merely predictions and not to be considered as guarantees of future performance. Forward-looking statements are based upon current expectations and assumptions that are subject to risks and uncertainties that can cause actual results to differ materially from those projected, anticipated or implied. A detailed discussion of potential risks and uncertainties that could cause actual results and events to differ materially from forward-looking statements is included in Part I, Item 1A- “Risk Factors” in this Annual Report and periodically in future reports filed with the Securities and Exchange Commission (the “SEC”).

The Company has no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events, except as required by law.

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ITEM 1 Business

General

Flotek Industries, Inc. ("Flotek" or the "Company") is a diversified global supplier of drilling and production related products and services. The Company's strategic focus, and that of all wholly owned subsidiaries (collectively referred to as the "Company"), includes oilfield specialty chemicals and logistics, down-hole drilling tools and down-hole production tools used in the energy and mining industries. In December 2007, the Company's common stock began trading on the New York Stock Exchange (the "NYSE") under the stock ticker symbol "FTK." Annual reports on Form 10-K, quarterly reports on Form 10Q, 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, ("the Exchange Act") are posted to the Company's website, www.flotekind.com as soon as practicable subsequent to electronically filing or furnishing to the SEC. Information contained on the Company's website is not to be considered as part of any regulatory filing. As used herein, "Flotek," the "Company," "we," "our" and "us" refers to Flotek Industries, Inc. and/or the Company's wholly ow subsidiaries. The use of these terms is not intended to connote any particular corporate status or relationship.

Historical Developments

The Company incorporated in the Province of British Columbia on May 17, 1985. On October 23, 2001, the Company moved the corporate domicile to the state of Delaware and culminated a reverse stock split of 120 to 1. Effective October 31, 2001, the Company completed a reverse merger with CESI Chemical, Inc. ("CESI"). Since that date, the Company has grown through a series of acquisitions and organic growth.

Description of Operations

The Company has three strategic business segments: Chemicals and Logistics ("Chemicals"), Drilling Products ("Drilling") and Artificial Lift. Each segment offers competitive products and services derived from patented technological advances that are reactive to industry demands in both domestic and international markets.

Financial information regarding operational segments and geographic concentration is provided within this Annual Report. See Part II, Item 8-"Financial Statements and Supplementary Data." and Note 17- Segment Information in the Notes to Consolidated Financial Statements for additional information.

Chemicals and Logistics

The Chemicals business provides oil and natural gas field specialty chemicals for use in drilling, cementing, stimulation and production activities designed to maximize recovery within both new and mature fields. The Company's specialty chemicals possess enhanced performance characteristics and are manufactured to withstand a broad range of down-hole pressures, temperatures and other well-specific conditions and compliant with customer specifications. The Company has two operational laboratories: 1) a technical services laboratory and 2) a research and development laboratory. Each focuses on design improvements, development and viability testing of new chemical formulations; as well as continued enhancement of existing products. CESI branded micro-emulsions are patented both domestically and internationally and are proven strategically cost effective alternatives within both oil and natural gas markets. The Company's micro-emulsions are environmentally friendly stable mixtures of oil, water and surface active agents that form complex nano-fluids which organize molecules into nanostructures. The combined advantage of solvents, surface active agent(s) and drilling structures result in increased well treatment results as compared to the independent use of solvents and surface active agent(s). CESI's micro-emulsions are composed of renewable, plant derived, cleaning ingredients and oils that are certified as biodegradable. Certain micro-emulsions have been approved for use in the North Sea which has some of the most stringent oil field environmental standards in the world. The Company's micro-emulsions have benefited both operational and financial results in low permeability sand and shale reservoirs.

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The logistics business designs, operates and manages automated bulk material handling and loading facilities. The bulk facilities handle oilfield products, including sand and other materials for well-fracturing operations, dry cement and additives for oil and natural gas well cementing, and supply materials used in oilfield operations.

Drilling Products

The Company is a leading provider of down-hole drilling tools for use in oilfield, mining, water-well and industrial drilling activities. Further, the Company manufactures, sells, rents and inspects specialized equipment used in drilling, completion, production and workover activities. Through internal growth initiatives, operational best practices and acquisitions, the Company has realized increased rental tool activity and broadened its geographic scope of operations. Established tool rental operations are strategically located throughout the United States (the "US") and in an increasing number of international markets. Rental tools include stabilizers, drill collars, reamers, wipers, jars, shock subs, wireless survey, measurement while drilling ("MWD") tools and mud-motors. Equipment sold primarily includes mining equipment, centralizers and drill bits. The Company remains focused on product marketing in the Southeast, Northeast, Mid-Continent and Rocky Mountain regions of the US, as well as on international sales expansion using third party agents and employees.

Artificial Lift

The Company provides pumping system components, electric submersible pumps ("ESP's"), gas separators, production valves and complementary services. Artificial Lift products satisfy the requirements of coal bed methane and traditional oil and natural gas production and assist natural gas, oil and other fluids movement from the producing horizon to the surface. Artificial Lift products employ proprietary technologies instrumental to improved well performance. Patented Petrovalve products optimize pumping efficiency in horizontal completions as well as heavy oil wells and wells with high liquid to gas ratios. Petrovalve products placed horizontally increase flow per stroke, and eliminate gas locking of traditional ball and seat valves that require more maintenance. The patented gas separation technology is particularly effective in coal bed methane production, efficiently separating gas and water down-hole as well as ensuring solution gas is not lost in water production. Gas separated down-hole, contributes to a reduction in the environmental impact of escaped gas at the surface. The majority of Artificial Lift products are manufactured in China, assembled domestically and distributed globally.

Seasonality

Overall, operations are not affected by seasonality. While certain working capital components build and recede throughout the year in conjunction with established selling cycles that can impact operations and financial position, the Company does not consider operations to be highly seasonal. The performance, of certain services within each of the Company's segments however, is susceptible to both weather and naturally occurring phenomena, including:

- severity and duration of winter temperatures in North America that impact natural gas storage levels and drilling activity;

- timing and duration of Canadian spring thaw and resulting road restrictions that impacts activity levels; and

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timing and impact of hurricanes upon both coastal and offshore operations.

Artificial Lift results of operations are historically weakest in the second quarter of the calendar year due to Federal land drilling restrictions during identified breeding seasons of protected bird species.

Product Demand and Marketing

Demand for the Company's products and services is reactive to the level of natural gas storage and production, oil and natural gas well drilling, and corresponding work-over activity, both domestically and internationally. Products are marketed directly to customers through contractual agency agreements and employees. Established customer relationships provide repeat sales opportunities within all segments. Marketing is currently concentrated within the US. Internationally the Company primarily operates using third party agents in Canada, Mexico, Central America, South America, the Middle East, and Asia.

Customers

The Company's customer base includes major integrated oil and natural gas companies, independent oil and natural gas companies, pressure pumping service companies and state-owned oil companies. One customer and its affiliates accounted for 12%, 17% and 20% of the Company's consolidated revenue for the years ended December 31, 2010, 2009 and 2008, respectively. The Company's top three customers together accounted for 18%, 22% and 26% of consolidated revenue for the years ended December 31, 2010, 2009 and 2008, respectively.

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Research and Development

The Company is engaged in research and development activities focused on the improvement of existing products and services, the design of specialized “customer need” products and the development of new products, processes and services. For the years ended December 31, 2010, 2009 and 2008 the Company incurred $1.4 million, $2.1 million and $1.9 million in research and development expenses, respectively. In 2010, research and development expenditures approximated 1% of consolidated revenue. The Company intends to maintain research and development investment at levels consistent with 2010 expenditures.

Backlog

Due to the nature of the Company’s contractual customer relationships and operational management, the Company has historically not had significant backlog order activity.

Intellectual Property

The Company’s policy is to ensure patent protection, both within and outside of the US, for all products and methods deemed to have commercial significance and qualify for patent protection. The decision to pursue patent protection is dependent upon whether patent protection can be obtained, cost-effectiveness and alignment with commercial interests. The Company believes patents and trademarks, combined with trade secrets, proprietary designs, manufacturing and operational expertise, are appropriate to protect intellectual property and ensure continued strategic business operations. The Company currently has patents pending on production valve design, casing centralizer design, ProSeries tool design and trade secrets. Existing patents expire at various dates during 2022 and 2023.

Competition

The ability to compete in the oilfield services industry is dependent upon the Company’s ability to differentiate products and services, provide superior quality and service, and maintain a competitive cost structure. Activity levels in all segments are impacted by current and expected commodity prices, vertical and horizontal drilling rig count, other oil and natural gas drilling activity, production levels and customer drilling and production designated capital spending. Domestic and international regions in which Flotek operates are highly competitive. The competitive environment has recently intensified due to mergers among oil and gas companies and the reduction in the number of available customers. The 2009 global economic downturn and corresponding commodity price fluctuations caused the market for the Company’s services, and that of competitors to decline. Certain competing oil and natural gas service companies are larger than Flotek and have access to more resources. These competitors could be better situated to withstand industry downturns, compete on the basis of price and acquire and develop new equipment and technologies; all of which, could affect the Company’s revenue and profitability. Oil and natural gas service companies also compete for customers and strategic business opportunities. Thus, competition could have a detrimental impact upon the Company’s business. The Company expects that competition for contracts and margins will continue to be intense in the foreseeable future.

Raw Materials

Materials and components used in the Company’s servicing and manufacturing operations, as well as those purchased for sale are generally available on the open market from multiple sources. Collection and transportation of raw materials to Company facilities however could be adversely affected by extreme weather conditions. Additionally, certain raw materials used by the Chemicals segments are available from limited sources. Disruptions to suppliers could materially impact sales. The prices paid for raw materials are contingent on energy, steel and other commodity price fluctuations; tariffs, duties on imported materials, foreign currency exchange rates, business cycle position and global demand. During 2010, the price of many raw materials increased and additional increases are anticipated in 2011. Higher prices combined with lower availability of chemicals, steel and other raw materials could adversely impact future sales and contract fulfillments.

The Drilling and Artificial Lift segments purchase raw materials and steel on the open market from numerous suppliers. When able, the Company uses multiple suppliers, both domestically and internationally, for all raw materials purchases.

The Drilling segment maintains a three to six month supply of mud-motor inventory parts sourced from China as well as an equivalent amount of parts necessary to meet forecast demand within Artificial Lift operations. The Company's inventory position approximates the lead time required to secure parts to avoid disruption of service to customers.

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Government Regulations

The Company is subject to federal, state and local environmental, occupational safety and health laws and regulations within the US and other countries in which the Company does business. The Company strives to ensure full compliance with all regulatory requirements and is unaware of any material instances of noncompliance. In the US, compliance 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 US federal laws and regulations, the Company does business in other countries with extensive environmental, legal, and regulatory requirements by which the Company must abide. The Company evaluates the environmental impact of all Company actions and attempts to quantify the price of contaminated property in order to identify and avoid liability, as well as maintain compliance with regulatory requirements. Several of Chemicals products are considered hazardous or flammable. In the event of a leak or spill in association with Company operations, the Company is exposed to risk of material cost, net of insurance proceeds, to remediate any contamination. The Company is occasionally involved in environmental litigation and claims, including remediation of properties owned or operated. The Company does not expect costs related to known remediation requirements to have a material adverse effect on the Company's consolidated financial position or results of operations.

Employees

At December 31, 2010, the Company had approximately 312 employees, exclusive of existing worldwide agency relationships. No company employee is covered by collective bargaining agreement and labor relations are generally positive. Certain international location changes in staffing or work arrangements are contingent upon local work councils or other regulatory approval.

Available Information

The Company's website is accessible at *https://www.flotekind.com.* Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available (see "Investor Relations" section on the Company's website), as soon as reasonably practicable subsequent to the Company electronically filing or otherwise providing reports to the SEC. Corporate governance materials, guidelines, charter and code of conduct are also available on the website. A copy of corporate governance materials is available upon written request to the Company.

All material filed with the SEC's "Public Reference Room" at 100 F Street NE, Washington, DC 20549 is available to be read or copied. Information regarding the "Public Reference Room" can be obtained by contacting the SEC at 1-800-SEC-0330. Further, the SEC maintains the *www.sec.gov* website, which contains reports and other registrant information filed electronically with the SEC.

The 2010 Annual Chief Executive Officer Certification required by the NYSE was submitted on September 8, 2010. The certification was not qualified in any respect. Additionally, the Company has filed with this Annual Report principal executive officer and financial officer certifications as required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

Information with respect to the Company's executive officers and directors is incorporated herein by reference to information to be included in the proxy statement for Flotek's 2011 Annual Meeting of Stockholders.

The Company has disclosed and will continue to disclose any changes or amendments to Flotek's code of ethics as well as waivers to the code of ethics applicable to executive management by posting such changes or waivers on the Company's website.

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ITEM 1A Risk Factors

The Company's business, financial condition, results of operations and cash flows are subject to various risks and uncertainties, including those described below. These risks and uncertainties could cause actual results to vary materially from current or forecast results. The risks below are not all-inclusive of risks that could impact the Company. Additional risks, not currently known to the Company, or that the Company presently considers immaterial could impact the Company's business operations.

This Annual Report contains "forward-looking statements," as defined in the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements discuss Company prospects, expected revenue, expenses and profits, strategic initiatives for operations and other activity. Forward-looking statements also contain suppositions regarding future conditions in the oil and natural gas industry within both domestic and international economies. The Company's results could differ materially from those anticipated in the forward-looking statements as a result of a variety of factors, including risks described below and elsewhere. See "Forward-Looking Statements" at the beginning of this Annual Report.

Risks Related to the Company's Business

The Company did not have profitable operations during 2010 and may not be profitable in 2011.

The Company experienced net losses during the last three calendar years, including net losses in each of the four quarters of 2010. The Company can provide no assurance that the 2011 operational plan (the "2011 Plan"), will be executed successfully and that even if successful in execution the Company will be profitable in 2011.

Demand for a majority of Company products and services is substantially dependent on the levels of expenditures within the oil and natural gas industry. If current global economic conditions and the availability of credit worsen or oil and natural gas prices materially weaken for an extended period of time, possible reductions in customers' levels of expenditures could have a significant adverse effect on revenue, margins and overall operating results.

The current global credit and economic environment has tempered worldwide demand for energy. Crude oil and natural gas prices have continued to be volatile. A substantial or extended decline in oil or natural gas prices could affect customers' spending for products and services. Demand for the majority of the Company's services is dependent upon the level of expenditures within the oil and gas industry for exploration, development and production of crude oil and natural gas reserves. Expenditures are sensitive to oil and natural gas prices, as well as the industry's outlook regarding future oil and natural gas prices. Reduced demand for Company products and services exerted downward pressure on prices charged in 2009. Limited recovery occurred in 2010. If economic conditions do not continue to improve or weaken from current levels, additional reductions in customer exploration and production expenditures could result, causing reduced demand for Company products and services and a significant adverse effect on the Company's operating results. It is difficult to predict the pace of the current recovery, whether the economy will worsen, and to what extent this could affect the Company.

Reduced cash flow of some of the Company's customers as a result of depressed commodity prices, reduced the availability of credit and increased the cost of borrowing due to tight credit markets. Reduced cash flow and capital availability could adversely impact the financial condition of the Company's customers, which could result in customer project modifications, delays or cancellations, general business disruptions, and delay in, or nonpayment of, amounts that are owed to the Company, that could result in a negative impact on the Company's results of operations and cash flows.

If certain of the Company's suppliers were to experience significant cash flow constraints or become insolvent as a result of such conditions, a reduction or interruption in supplies or a significant increase in the price of supplies could occur, and adversely impact the Company's results of operations and cash flows.

The price for oil and natural gas is subject to a variety of factors, including:

- demand for energy reactive to worldwide population growth, economic development and general economic and business conditions;
- ability of the Organization of Petroleum Exporting Countries ("OPEC") to set and maintain production levels;
- production of oil and natural gas by non-OPEC countries;
- availability and quantity of natural gas storage;
- import volume and pricing of Liquefied Natural Gas;
- pipeline capacity to critical markets;
- political and economic uncertainty and socio-political unrest;
- cost of exploration, production and transport of oil and natural gas;
- technological advances impacting energy consumption; and
- weather conditions.

The Company's business is dependent upon domestic spending within the oil and natural gas industry. Spending could be adversely affected by industry conditions or by new or increased governmental regulations beyond the Company's control.

The Company is dependent upon customers' willingness to make operating and capital expenditures for exploration, development and production of oil and natural gas in both the US and abroad. Customers' expectations of future oil and natural gas market prices could curtail spending thereby reducing demand for the Company's products and services. Industry conditions in the US are influenced by numerous factors over which the Company has no control, including the supply of and demand for oil and natural gas, domestic and international economic conditions, political instability in oil and natural gas producing countries and merger and divestiture activity among oil and natural gas producers. The volatility of oil and natural gas prices and the consequential effect on exploration and production activity could adversely impact the level of activity engaged in by the Company's customers. One indicator of drilling and production activity spending is rig count which the company actively monitors to gauge market conditions. A reduction in drilling activity could cause a decline in the demand for, or negatively affect the price of, the Company's products and services. Domestic demand for oil and natural gas could also be uniquely affected by public attitude regarding drilling in environmentally sensitive areas, vehicle emissions and other environmental standards, alternative fuels, taxation of oil and gas, perception of "excess profits" of oil and gas companies, and anticipated change in governmental regulations and policy.

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The senior credit facility contains certain covenants that could limit the Company's flexibility and prevent the Company from taking certain actions, which could adversely affect the ability to initiate certain business strategies.

The senior credit facility, as amended, includes a number of restrictive covenants. These covenants could adversely affect the Company's ability to plan for or react to market conditions, meet capital needs and execute business strategies. The senior credit facility covenants, among other things, limit the Company's ability, without the consent of the lender, to:

- incur certain types and amounts of additional debt;
- consolidate, merge, sell assets or materially change the nature of the Company's business;
- pay dividends on capital stock or make restricted payments;
- make voluntary prepayments, or materially amend the terms of subordinated debt;
- enter into disallowed types of transactions with affiliates;
- make disallowed investments;
- exceed quantified level of capital expenditures; and
- incur certain liens.

These covenants may restrict the Company's operating and financial flexibility as well as limit the Company's ability to react in a timely manner to changes in business or competitive circumstances. Covenant noncompliance could result in default of the senior credit facility. Upon such default, the Company's senior credit facility lenders could declare all amounts borrowed and due to them, inclusive of all accrued and unpaid interest, due and payable. As a result, the Company or one or more of its subsidiaries could be forced into liquidation or bankruptcy. Any of the foregoing circumstances could restrict the Company's ability to execute strategic business initiatives. Any default or acceleration of the Company's senior credit facility could result in a default of the Company's convertible senior notes.

The Company's future success and profitability may be adversely affected if the Company or the Company's suppliers fail to develop and/or introduce new and innovative products and services.

The oil and natural gas drilling industry is characterized by technological advancements that have historically resulted in, and will likely continue to result in, substantial improvements in the scope and quality of oilfield chemicals, drilling and artificial lift products and services function and performance. Consequently, the Company's future success is dependent, in part, upon the Company's and the Company's suppliers' continued ability to timely develop innovative products and services. Increasingly sophisticated customer needs and the ability to timely anticipate and respond to technological and industrial advances in the oil and natural gas drilling industry is critical. If the Company or the Company's suppliers fail to successfully develop and introduce innovative products and services that appeal to customers, or if new market entrants or competitors develop superior products and services, the Company's revenue and profitability could suffer.

The Company intends to pursue strategic acquisitions, which could have an adverse impact on the Company's business.

The Company remains committed to growth through strategic acquisitions and alliances with complementary businesses. The Company's historical and potential acquisitions involve risks that could adversely affect the Company's business climate and results of operations. Negotiations of potential acquisitions or integration of newly acquired businesses could divert management's attention from other business concerns as well as be cost prohibitive and time consuming. Acquisitions could also expose the Company to unforeseen liabilities or risks associated with new markets or businesses. Unforeseen operational difficulties related to acquisitions could result in diminished financial performance or require a disproportionate amount of the Company's management's attention and resources. Additional acquisitions could result in the commitment of capital resources without the realization of anticipated returns. The Company's current credit agreement limits the Company's ability to access additional borrowings under the senior credit facility and from other sources.

If the Company does not manage the potential difficulties associated with expansion successfully, the Company's operating results could be adversely affected.

The Company has grown over the last several years through internal growth, strategic business/asset acquisitions and strategic alliances. The Company believes future success will depend, in part, on the Company's ability to adapt to market opportunities and changes and to successfully integrate operations of businesses the Company acquires. The following factors could generate business difficulties going forward:

- lack of experienced management personnel;
- increased administrative burdens;
- customer retention;
- technological obsolescence; and

- infrastructure, technological, communication and logistical issues associated with large, expansive operations.

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If the Company fails to manage potential difficulties successfully, including increased costs associated with growth, the Company’s operating results could be adversely affected.

The Company’s ability to grow and compete could be adversely affected if adequate capital is not available.

The ability of the Company to grow and compete is reliant on the availability of adequate capital. Access to capital is dependent, in large part, on the Company’s cash flows from operations and the availability of equity and debt financing. The Company cannot guarantee cash flows from operations will be sufficient, or that the Company will continue to be able to obtain equity or debt financing on acceptable terms, or at all, in order to realize growth strategies. The Company’s senior credit facility restricts the Company’s ability to incur additional indebtedness, including borrowings to fund future acquisitions, a key component of growth strategies. As a result, the Company cannot assure adequate capital will be available to finance strategic growth plans, to take advantage of business opportunities or to respond to competitive pressures, any of which could harm the Company’s business.

The Company’s current insurance policies may not adequately protect the Company’s business from all potential risks.

The Company’s operations are subject to risks inherent in the oil and natural gas industry, such as, but not limited to, accidents, blowouts, explosions, fires, severe weather, oil and chemical spills and other hazards. These conditions can result in personal injury or loss of life, damage to property, equipment and environment, as well as suspension of customer’s oil and gas operations. Litigation arising from any catastrophic occurrence where the Company’s equipment, products or services are being used could result in the Company being named as a defendant in lawsuits asserting large claims. The Company maintains insurance coverage that it believes is customary to the industry to mitigate liabilities associated with these hazards. The Company does not, however, have insurance against all foreseeable risks, either because insurance is not available or is cost prohibitive. Further, the Company may not have the financial wherewithal to maintain adequate insurance coverage in the future. Consequently, losses and liabilities arising from uninsured or underinsured events could have a material adverse effect on the Company’s business, financial condition and results of operations.

The Company is subject to complex foreign, federal, state and local environmental, health and safety laws and regulations, which expose the Company to liabilities that could have a material adverse effect on the Company’s business, financial condition and results of operations.

The Company’s operations are subject to foreign, federal, state and local laws and regulations relating to, among other things, the protection of natural resources, injury, health and safety considerations, waste management and transportation of waste and other hazardous materials. The Company’s Chemicals segment exposes the company to risks of environmental liability that could result in fines, penalties, remediation, property damage and personal injury liability. In order to remain compliant with laws and regulations, the Company maintains permits, authorizations and certificates as required from regulatory authorities. Sanctions for noncompliance with such laws and regulations could include assessment of administrative, civil and criminal penalties, revocation of permits and issuance of corrective action orders.

The Company could incur substantial costs to ensure compliance with existing laws and regulations. Laws protecting the environment have generally become more stringent and are expected to continue to do so, which could result in material expenses associated with future environmental compliance and remediation. The Company’s costs of compliance could also 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 natural gas which, in turn, could limit demand for the Company’s products and services. Some environmental laws and regulations may also impose joint and strict liability, meaning that in certain situations the Company could be exposed to liability as a result of Company conduct that was lawful at the time it occurred or conduct of, or conditions caused by, prior operators or other third parties. Remediation expense and other damages arising as a result of such laws and regulations could be substantial and have a material adverse effect on the Company's financial condition and results of operations.

Material levels of the Company's revenue are derived from customers engaged 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 flow more easily through the rock pores to a production well. Bills pending in the US House and Senate have asserted that chemicals used in the fracturing process adversely affect drinking water supplies. The proposed legislation could require the reporting and public disclosure of currently proprietary chemical formulas used in the fracturing process. Legislation, if adopted, could establish an additional level of regulation at the federal level that could result in operational delays and increased operating costs. The adoption of any future federal or state laws or the implementation of regulations imposing reporting obligations on, or otherwise limiting, the hydraulic fracturing process could increase the difficulty of natural gas and oil well production and could have an adverse impact on the Company's future results of operations, liquidity and financial condition.

Regulation of greenhouse gases and climate change could have a negative impact on the Company's business.

Certain scientific studies have suggested that emissions of certain gases, commonly referred to as "greenhouse gases", including carbon dioxide and methane, may be contributory to the 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 worldwide attention. Legislative and regulatory measures to address greenhouse gas emissions are in various phases of discussions or implementation at international, national, regional and state levels.

In 2005, the Kyoto Protocol (the "Protocol") to the 1992 United Nations Framework Convention on Climate Change, which established emission targets for greenhouse gases, became binding on those countries that had ratified the Protocol. In the US, federal legislation imposing restrictions on greenhouse gases is currently 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 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 requires operators of stationary sources in the US emitting more than established annual thresholds of carbon dioxide-equivalent greenhouse gases to inventory and report greenhouse gas emissions annually; and (ii) an "Endangerment Finding" final rule, effective January 14, 2010, which states that current and projected concentrations of six identified greenhouse gases in the atmosphere, as well as emissions from new motor vehicles and new motor vehicle engines threaten public health and welfare. Final greenhouse gas standards could reduce the demand for motor fuels refined from crude oil. According to the EPA, the final greenhouse gas standards will trigger construction and operating permit requirements for large stationary sources. Existing or future laws, regulations, treaties or international agreements related to greenhouse gases and climate change, including energy conservation or alternative energy incentives, could have a negative impact on the Company's operations if, as a result, there is a reduction in worldwide demand for oil and natural gas or global economic activity. Other results could be increased compliance costs and additional operating restrictions, each of which would have a negative impact on the Company's operations. Lastly, the Company's operations could be negatively impacted by related physical changes or changes in weather patterns.

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If the Company is unable to adequately protect its intellectual property rights or is found to infringe upon the intellectual property rights of others the Company's business is likely to be adversely affected.

The Company relies on a combination of patents, trademarks, non-disclosure agreements and other security measures to establish and protect the Company's intellectual property rights. Although the Company believes that existing measures are reasonably adequate to protect intellectual property rights there is no assurance that the measures taken will prevent misappropriation of proprietary information, provide the Company with a competitive advantage, or dissuade others from independent development of similar products or services. Moreover, there is no assurance that the Company will be able to prevent competitors from copying, reverse engineering or otherwise obtaining and using the Company's technology, proprietary rights or products. The Company has not sought foreign protection corresponding to all US intellectual property rights. Consequently, the Company may not be able to enforce intellectual property rights outside of the US. Furthermore, the laws of certain countries in which the Company's products are manufactured or marketed may not protect the Company's proprietary rights to the same extent as the laws of the US. Finally, parties may challenge, invalidate or circumvent the Company's patents, trademarks, copyrights and trade secrets. In each case, the Company's ability to compete could be significantly impaired.

A portion of the Company's products are without patent protection. The issuance of a patent does not guarantee validity or enforceability, accordingly, Company patents may not be valid or enforceable against third parties. The issuance of a patent does not guarantee that the Company has the right to use the patented invention. Third parties may have blocking patents that could be used to prevent the Company from marketing the Company's own patented products and utilizing the patented technology.

The Company is exposed to allegations of patent and other intellectual property infringement. Furthermore, the Company could become involved in costly litigation or proceedings regarding patents or other intellectual property rights. If any such claims are asserted against the Company, the Company could seek to obtain a license under the third party's intellectual property rights in order to mitigate exposure. In the event the Company cannot obtain a license, affected parties could file lawsuits against the Company seeking damages (including treble damages), or an injunction against the sale of the Company's products allegedly incorporating infringed intellectual property or the operation of the Company's business as certain conducted which would result in the Company having to cease the sale of some products, increase the cost of selling products, or result in damage to the Company's reputation. The award of damages, including material royalty payments, or the entry of an injunction order against the manufacture and sale of any of the Company's products, could have a material adverse effect on the Company's results of operations and ability to compete.

The Company and the Company's customers are subject to risks associated with doing business outside of the US including political risk, foreign exchange risk and other uncertainties.

Revenue from the sale of products to customers outside the US exceeded 13% of the Company's total 2010 annual revenue. The Company and its customers are subject to risks inherent in doing business outside of the US, 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 laws and policies, each of which may limit the movement of assets or funds or result in the deprivation of contract rights or appropriation of property without fair compensation.

Collections and recovery of rental tools from international customers and agents may also prove difficult due to inherent uncertainties of foreign law and judicial procedure. The Company could experience significant difficulty with collections or recovery due to the political or judicial climate in foreign countries in which it operates or in which the Company's products are used.

The Company's international operations must be compliant with the Foreign Corrupt Practices Act (the "FCPA") and other applicable US laws, and the Company could become liable under these laws for actions taken by employees or agents. Compliance with international laws and regulations could become more complex and expensive thereby creating increased risk as the Company's international business portfolio grows. Further, the US periodically enacts laws and imposes regulations prohibiting or restricting trade with certain nations. The US government could also change these laws or enact new laws that could restrict or prohibit the Company from doing business in identified foreign countries.

Although most of the Company's international revenue is derived from transactions denominated in US dollars, the Company has conducted, and likely will continue to conduct, some business in currencies other than the US dollar. The Company currently does not hedge against foreign currency fluctuations. Accordingly, the Company's profitability could be affected by fluctuations in foreign exchange rates. The Company has no control over and can provide no assurances that future laws and regulations will not materially impact the Company's ability to conduct international business.

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The loss of key customers could have a material adverse effect on the Company's results of operations and could result in a decline in the Company's revenue.

The Company is dependent on a few key customers. During each of the years ended December 31, 2010, 2009 and 2008, over 18%, 22% and 26%, respectively, of the Company's consolidated revenue was derived from three customers. The Company's customer relationships are historically governed by purchase orders or other short-term contracts rather than long-term contracts. The loss of one or more of these key customers could have a material adverse effect on the Company's results of operations and could result in a decline in the Company's revenue.

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

Materials used in servicing and manufacturing operations as well as those purchased for sale are generally available on the open market and from multiple sources. Acquisition and transportation of these raw materials to the Company's facilities however, can be impacted by extreme weather conditions. Certain raw materials used by the Chemicals segment are only available from limited sources and any disruptions to these suppliers could materially impact the Company's sales. The prices the Company pays for raw materials could be affected by, among other things, energy, steel and other commodity prices; tariffs and duties on imported materials; foreign currency exchange rates; phases of the general business cycle and global demand.

The Drilling and Artificial Lift segments purchase critical raw materials on the open market and, where able, from multiple suppliers, both domestically and internationally.

The Company maintains a three to six month supply of critical mud-motor inventory parts that the Company sources from China. This inventory stock position approximates the lead time required to secure these parts in order to avoid disruption of service to the Company's customers. The Company's inability to secure reasonably priced critical inventory parts in a timely manner could adversely affect the Company's ability to service customers. The Company sources the vast majority of motor parts from a single supplier. As part of the 2011 business plan, the Company is actively working to identify and develop relationships with back-up parts suppliers. If unsuccessful in identifying and engaging back-up suppliers, the Company could be exposed to a disruption of key suppliers that could result in a loss of revenue or key customers. Additionally, if the customers were to seek or develop alternatives for the products or services the Company offers, the Company could suffer a decline in revenue and loss of key customers.

The Company currently does not hedge commodity prices. The Company may be unable to pass along price increases to its customers, which could result in a decline in revenue or operating profits.

The Company's inability to develop new products or differentiate existing products could have a material adverse effect on the ability to be responsive to customer's needs and could result in a loss of customers.

The Company's ability to compete within the oilfield services business is dependent upon the ability to differentiate products and services, provide superior quality and service, and maintain a competitive cost structure. Activity levels in the Company's operations are driven by current and forecast commodity prices, drilling rig count, oil and natural gas production levels, and customer capital spending for drilling and production. The regions in which the Company operates are highly competitive. The Company is also smaller than many other oil and natural gas service companies and has fewer resources as compared to these competitors. The larger competitors are better positioned to withstand industry downturns, compete on the basis of price and acquire new equipment and technologies, all of which could affect the Company's revenue and profitability. The Company competes for both customers and acquisition opportunities. Competition could adversely affect on the Company's operating profit. The Company believes that competition for products and services will continue to be intense in the foreseeable future.

If the Company loses the services of key members of management, the Company may not be able to manage operations and implement growth strategies.

The Company depends on the continued service of the President, the Executive Vice President of Finance and Strategic Planning, the Executive Vice President of Operations, Business Development and Special Projects and the Chief Accounting Officer, who possess significant expertise and knowledge of the Company’s business and industry. Further, the President serves as Chairman of the Board of Directors. The Company does not carry key man life insurance on any of these executives at December 31, 2010. The Company has entered into employment agreements with the President, the Executive Vice President of Finance and Strategic Planning, the Executive Vice President of Operations, Business Development and Special Projects and the Chief Accounting Officer. Any loss or interruption of the services of key members of the Company’s management could significantly reduce the Company’s ability to manage operations effectively and implement strategic business initiatives. The Company can provide no assurance that appropriate replacements for key positions could be found should the need arise.

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

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

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The Company did not maintain an effective control environment during 2009 and consequently identified control deficiencies that constituted material deficiencies in connection with preparation of the Company's 2009 financial statements. The Company has concluded that while certain previously identified material deficiencies related to internal controls have been remediated as of December 31, 2010 the material deficiencies still exist within the Company's control environment, disclosure controls and procedures remain ineffective.

The Company has implemented on-going remediation and internal control improvement initiatives order to identify material weaknesses and to enhance the overall financial control environment. The Company's management continues to be actively committed to and engaged in the implementation and execution of remediation efforts to identify and resolve any material weaknesses. The executive management team is committed to achieving and maintaining a strong control environment, high ethical standards, and financial reporting integrity. There can, however, be no assurance that the Company's remediation efforts will be successful.

Failure to timely file accurate reports with the SEC could have an adverse effect on the trading price of the Company's common stock and the ability to raise capital in the capital markets.

The Company did not file the March 31, 2010 Quarterly Report on Form 10-Q in a timely manner. The Company filed a request for an extension of time to file and subsequently filed the referenced Form 10-Q within the extension period. A failure to timely file SEC reports could result in the Company's inability to file registration statements using any registration form other than Form S-1, which is more time consuming and costly to prepare. Filing limitations could also hamper the Company's ability to raise capital in financial markets. Additionally, the late filing of reports with the SEC could result in a technical default of the Company's various debt obligations. The Company restated the Financial Statements in the Annual Report on Form 10-K for the calendar year ended December 31, 2009 to reclassify warrants from stockholders' equity to warrant liability and to recognize changes in the fair value of the a warrant liability in the statement of operations.

Risks Related to the Company's Industry

Uncertainty regarding the pace of recovery from the recent recession could have an adverse effect on exploration and production activity and result in lower demand for the Company's products and services.

Recent worldwide financial and credit crisis uncertainty has reduced the availability of liquidity and credit markets to fund the continuation and expansion of industrial business operations worldwide. The shortage of liquidity and credit combined with pressure on worldwide equity markets could continue to impact the worldwide economic climate. Unrest in the Middle East may also impact demand for the Company's products and services both domestically and internationally.

Demand for the Company's products and services is dependent on oil and natural gas industry activity and expenditure levels that are directly affected by trends in oil and natural gas prices. Demand for the Company's products and services is particularly sensitive to levels 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 the Company monitors to gauge market conditions. Any prolonged reduction in oil and natural gas prices or drop in rig count could depress current levels of exploration, development, and production activity. Perceptions of longer-term lower oil and natural gas prices by oil and natural gas companies could similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Lower levels of activity could result in a corresponding decline in the demand for the Company's oil and natural gas well products and services, which could have a material adverse effect on the Company's revenue and profitability.

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

Events in global credit markets over the past several years have significantly impacted the availability of credit and associated financing costs for many of the Company's customers. A significant portion of the Company's customers finance drilling and production programs through third-party lenders. Lack of available credit or increased costs of borrowing could cause customers to reduce spending on drilling programs, thereby reducing demand and potentially resulting in lower prices for the Company's products and services. Also, the credit and economic environment could significantly impact the financial condition of some customers over a prolonged period, leading to business disruptions and restricted ability to pay for the Company's products and services. The Company's forward-looking statements assume that the Company's lenders, insurers and other financial institutions will be able to fulfill their obligations under various credit agreements, insurance policies and contracts. If any of the Company's significant lenders, insurers and others are unable to perform under such agreements, and if the Company was unable to find suitable replacements at a reasonable cost, the Company's results of operations, liquidity and cash flows could be adversely impacted.

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A prolonged period of depressed oil and natural gas prices could result in reduced demand for the Company's products and services and adversely affect the Company's business, financial condition and results of operations.

The markets for oil and natural gas have historically been extremely volatile. Such volatility in oil and natural gas prices, or the perception by the Company's customers of unpredictability in oil and natural gas prices, could adversely affect spending within targeted industries. The Company anticipates that current markets will continue to be volatile in the future. The demand for the Company's products and services is, in large part, driven by current and anticipated oil and natural gas prices and the related general levels of production spending and drilling activity. In particular, depressed oil and natural gas prices could cause a decline in exploration and drilling activities. This, in turn, could result in lower demand for the Company's products and services and could result in lower prices for the Company's products and services. A prolonged decline in oil or natural gas prices could adversely affect the Company's business, financial condition and results of operations.

New and existing competitors within the Company's industry could have an adverse effect on results of operations.

The oil and natural gas industry is highly competitive and fragmented. The Company's principal competitors include numerous small companies capable of competing effectively in the Company's markets on a local basis, as well as a number of large companies that possess substantially greater financial and other resources than does the Company. Larger competitors may be able to devote greater resources to developing, promoting and selling products and services. The Company 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 the Company's customers. As a result of this competition, the Company could experience lower sales or greater operating costs, which could have an adverse effect on the Company's margins and results of operations.

The Company's industry has a high rate of employee turnover. Difficulty attracting or retaining personnel or agents could adversely affect the Company's business.

The Company operates in an industry that has historically been highly competitive in securing qualified personnel with the required technical skills and experience. The Company's services require skilled personnel able to perform physically demanding work. Due to industry volatility and the demanding nature of the work, workers could choose to pursue employment opportunities that offer a more desirable work environment at wages competitive with the Company's. As a result, the Company may not be able to find qualified labor, which could limit the Company's growth ability. In addition, the cost of attracting and retaining qualified personnel has increased over the past several years due to competitive pressures. The Company expects labor costs will continue to increase in the foreseeable future. In order to attract and retain qualified personnel the Company may be required to offer increased wages and benefits. If the Company is unable to increase the prices of products and services to compensate for increases in compensation, or is unable to attract and retain qualified personnel, operating results could be adversely affected.

Severe weather could have a material adverse impact on the Company's business.

The Company's business could be materially and adversely affected by severe weather conditions. Hurricanes, tropical storms, blizzards, cold weather and other severe weather conditions could result in curtailment of services, damage to equipment and facilities, interruption in transportation of products and materials and loss of productivity. If the Company's customers are unable to operate or are required to reduce operations due to severe weather conditions, and as a result curtail purchases of the Company's products and services, the Company's business could be materially adversely affected.

A terrorist attack or armed conflict could harm the Company's business.

Terrorist activities, anti-terrorist efforts and other armed conflicts involving the US could adversely affect the US and global economies and could prevent the Company from meeting financial and other obligations. The Company could experience loss of business, delays or defaults in payments from payors, or disruptions of fuel supplies and markets if pipelines, production facilities, processing plants or refineries are direct targets or indirect casualties of an act of terror or war. Such activities could reduce the overall demand for oil and natural gas which, in turn, could also reduce the demand for the Company's products and services. The Company has 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 the Company's results of operations, impair the ability to raise capital or otherwise adversely impact the Company's ability to realize certain business strategies.

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Risks Related to the Company's Securities

The market price of the Company's common stock has been and may continue to be volatile.

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

- variations in the Company's quarterly results of operations;
- changes in market valuations of companies in the Company's industry;
- fluctuations in stock market prices and volume;
- fluctuations in oil and natural gas prices;
- issuances of common stock or other securities in the future;
- additions or departures of key personnel; and
- announcements by the Company or the Company's competitors of new business, acquisitions or joint ventures.

The stock market has experienced unusual price and volume fluctuations in recent years that have significantly affected the price of common stock of many companies within the oil and natural gas industry. Further changes can occur without regard to specific operating performance. The price of the Company's common stock could continue to fluctuate based upon factors that have little to do with the Company's operational performance, and these fluctuations could materially reduce the Company's stock price. Class action lawsuits have historically been brought against companies following periods of common stock market price volatility. The Company could be named in a legal case of this type, which could be expensive and divert management's attention and company resources, as well as have a material adverse effect on the Company's business, financial condition and results of operations.

An active market for the Company's common stock may not continue to exist or may not continue to exist at current trading levels.

Trading volume for the Company's common stock has historically been low when compared to companies with larger market capitalizations. The Company cannot presume that an active trading market for the Company's common stock will continue or be sustained. Sales of significant amounts of shares of the Company's common stock in the public market could lower the market price of the Company's stock.

If the Company does not meet the New York Stock Exchange continued listing requirements, the Company's common stock may be delisted, which could have an adverse impact on the liquidity and market price of the Company's common stock.

The Company's common stock is currently listed on the NYSE. In accordance with the NYSE's continued listing standards, a company is considered to be below compliance standards if, among other things, (i) both a Company's average global market capitalization is less than $50 million over a 30 trading-day period and a company's stockholders' equity is less than $50 million; (ii) a company's average global market capitalization is less than $15 million over a 30 trading-day period, which would result in immediate initiation of suspension procedures; or (iii) a company's average closing price of a listed security is less than $1.00 over a consecutive 30 trading-day period. The Company previously received notification from the NYSE that it was not in compliance with the NYSE's continued listing requirements because both the 30 trading-day average global market capitalization and the Company's 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," however, the company is permitted to submit a business plan demonstrating ability to return to compliance with continued listing standards within 18 months of receipt of the NYSE notification. The Company submitted a plan of action to the NYSE in March 2010, which the Company believes will provide the ability to, once again, achieve compliance by no later than June 28, 2011 with the minimum listing requirements. During the plan implementation process, the Company's common stock continues to be listed on the NYSE, subject to the Company's compliance with other NYSE continued listing requirements. On March 29, 2010, the NYSE agreed to accept the Company's plan of action.

If the Company's shares of common stock are delisted from the NYSE and the Company is unable to list common stock on another US national or regional securities exchange or have shares of common stock quoted on an established over-the-counter trading market in the US within 30 days of being delisted, the Company could be required to offer to repurchase all of the Company's outstanding convertible notes at a price equal to 100% of the principal amount thereof plus any accrued and unpaid interest. Were this to occur the Company could lack the financial wherewithal to fund the repurchase of any convertible notes tendered.

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

The Company has no plans to pay dividends on the Company's common stock, and, therefore, investors will have to look to stock appreciation for return on investments.

The Company does not anticipate paying any cash dividends on the Company's common stock in the foreseeable future. The Company currently intends to retain all future earnings to fund the development and growth of the Company's business and to meet current debt obligations. Any payment of future dividends will be at the discretion of the Company's board of directors and will depend on, among other things, the Company's earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends and other considerations deemed relevant by the board of directors. Certain covenants of the Company's senior credit facility restrict the payment of dividends without the prior written consent of the lenders. Investors must rely on sales of common stock held after price appreciation, which may never occur, in order to realize a return on their investment.

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

The Company's certificate of incorporation and bylaws contain provisions that:

- permit the Company 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 the Company's stock without the approval of the board of directors. Aforementioned provisions and other similar provisions make it more difficult for a third party to acquire the Company exclusive of negotiation. The Company's board of directors could choose not to negotiate with an acquirer deemed not beneficial to or synergistic with the Company's strategic outlook. If an acquirer were discouraged from offering to acquire the Company or prevented from successfully completing a hostile acquisition by referenced anti-takeover measures, shareholders could lose the opportunity to sell owned shares at a favorable price.

Future issuance of additional shares of common stock could cause dilution of ownership interests and adversely affect the Company's stock price.

The Company may, in the future, issue previously authorized and unissued shares of common stock, which would result in the dilution of current stockholders ownership interests. The Company is currently authorized to issue 80,000,000 shares of common stock, of which 44,417,382 were issued as of March 7, 2011. Additional shares are subject to future issuance through the exercise of options granted under various equity compensation plans or through the exercise of options still available for future equity grants. The potential issuance of additional shares of common stock, whether directly or pursuant to any conversion right associated with the convertible senior notes or convertible preferred stock or other convertible securities of the Company, or through exercise of outstanding warrants may create downward pressure on the trading price of the Company's common stock. The Company may also issue additional shares of common stock or other securities that are convertible into or exercisable for common stock in order to raise capital or effectuate 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 the Company's common stock.

The Company may issue additional shares of preferred stock or debt securities with greater rights than the Company's common stock.

Subject to the rules of the NYSE, the Company's certificate of incorporation authorizes the board of directors to issue one or more additional series of preferred stock and to set the terms of the issuance without seeking approval from holders of common stock. Currently, there are 100,000 preferred shares authorized, of which 16,000 shares were originally issued, of which no shares remain outstanding at March 7, 2011. Any preferred stock that is issued may rank senior to common stock in terms of dividends, priority and liquidation premiums, and may have greater voting rights than holders of common stock. All outstanding warrants are exercisable as of December 31, 2010.

The Company's ability to use net operating loss carryforwards and tax attribute carryforwards to offset future taxable income may be limited as a result of transactions involving the Company's common stock.

Under section 382 of the Internal Revenue Code of 1986, as amended, a corporation that undergoes an "ownership change" is subject to limitations on the Company's ability to utilize pre-change net operating losses ("NOLs"), and certain other tax attributes to offset future taxable income. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders increases by more than 50 percentage points over such stockholders' lowest percentage ownership during the testing period (generally three years). An ownership change could limit the Company's ability to utilize NOLs and tax attribute carryforwards for taxable years including or following an identified "ownership change." Transactions involving the Company's common stock, even those outside the Company's control, such as purchases or sales by investors, within the testing period, could result in an "ownership change". Limitations imposed on the ability to use NOLs and tax credits to offset future taxable income could require the Company to pay US federal income taxes in excess of that which would otherwise be required if such limitations were not in effect. NOLs and tax attributes could expire unused, in each instance reducing or eliminating the benefit of the NOLs and tax attributes. Similar rules and limitations may apply for state income tax purposes.

Disclaimer of Obligation to Update

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

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ITEM 1B Unresolved Staff Comments

None.

ITEM 2 Properties

As of February 28, 2011, the Company operates 34 manufacturing and warehouse facilities in seven states. The Company owns 12 of these facilities. The remaining facilities are leased with lease terms expiring at various dates through 2032. The Company's corporate office is a leased facility located in Houston, Texas. The following table sets forth facility locations :

Segment	Owned/Leased	Location
Chemicals	*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	Owned	Chickasha, Oklahoma
	Owned	Oklahoma City, Oklahoma
	Owned	Houston, Texas
	Owned	Midland, Texas
	Owned	Robstown, Texas
	Owned	Vernal, Utah
	Owned	Evanston, Wyoming
	Leased	*Bossier City, Louisiana*
	Leased	*Lafayette, Louisiana*

	Leased	*Shreveport, Louisiana*
	Leased	*Farmington, New Mexico*
	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*
General Corporate	*Leased*	*Houston, Texas*

The Company considers all facilities in good condition and suitable to the safe conduct of business.

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ITEM 3 Legal Proceedings

Litigation

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

ITEM 4 (Removed and Reserved)

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

The Company's common stock began trading on the NYSE on December 27, 2007 under the stock ticker symbol "FTK." As of the close of business on March 7, 2011, there were 43,034,446 shares of common stock outstanding held by approximately 6,000 holders of record. The last reported sales price of the common stock on the NYSE on March 7, 2011 was $6.30.

The following table sets forth, on a per share basis for the periods indicated, the high and low closing sales prices of common stock as reported by the NYSE. These prices do not include retail mark-ups, mark-downs or commissions.

	Common Stock Closing Sales Price, per share			
Fiscal 2010		**High**		**Low**
4th Quarter	$	5.75	$	1.40
3rd Quarter	$	1.73	$	1.01
2nd Quarter	$	2.24	$	1.16
1st Quarter	$	1.90	$	1.20
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

The Company has never declared or paid cash dividends on common stock. While the Company regularly assesses the dividend policy, the Company has no current plans to declare dividends on common stock, and intends to continue to use earnings and other cash in the maintenance and expansion of the business. Further, the Company's senior credit facility contains provisions that limit the Company's ability to pay cash dividends on 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 the Company’s common stock, as compared with the Russell 2000 Index and the Philadelphia Oil Service Index for the annual 2006 through 2010 periods. The performance graph assumes $100 invested on December 31, 2005 in each of the Company’s common stock, the Russell 2000 Index and the Philadelphia Oil Service Index, and that any and all dividends were reinvested.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Assumes Initial Investment of $100

	2005	2006	2007	2008	2009	2010
Flotek Industries, Inc.	$ 100	$ 150	$ 387	$ 27	$ 14	$ 58
Russell 2000 Index	$ 100	$ 118	$ 117	$ 77	$ 98	$ 124
Philadelphia Oil Service Index (OSX)	$ 100	$ 110	$ 167	$ 68	$ 110	$ 139

The foregoing graph should not be deemed to be filed as part of this Annual Report, 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 the Company specifically incorporates the graph by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information regarding the Company’s equity securities that are authorized for issuance under the Company’s 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	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the Column (a))
	(a)	(b)	(c)

Equity compensation plans approved by security holders	1,605,135	$	3.90	2,880,024
Equity compensation plans not approved by security holders	-		-	-
TOTAL	**1,605,135**	**$**	**3.90**	**2,880,024**

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Recent Sales of Unregistered Securities

During the three months ended December 31, 2010 the Company had no sales of unregistered securities that have not been previously reported.

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,” included elsewhere herein. The selected operating and financial position data presented for each of the five years has been derived from the Company’s audited consolidated financial statements, some of which appear elsewhere in this Annual Report. During the annual periods 2006 through 2008, the Company completed a number of business combinations and other transactions that materially affected the comparability of the information provided below.

The Company incurred significant non-recurring charges during the years 2007 through 2010. During 2010, the Company recorded a fixed asset and other intangible impairment charge of $9.3 million. During 2009 and 2008, the Company recorded goodwill impairment and other intangible assets of $18.5 million and $67.7 million, respectively (see Note 9 to the Notes of the Consolidated Financial Statements). 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 2007 stock split.

(in thousands, except per share data)	**As of and for the Year ended December 31,**				
	2010	**2009**	**2008**	**2007**	**2006**
Operating Data					
Revenue	$ 146,982	$ 112,550	$ 226,063	$ 158,008	$ 100,642
Income (loss) from operations	(6,267)	(33,103)	(30,751)	29,686	18,853
Net income (loss)	(43,465)	(50,333)	(34,242)	16,727	11,350
Earnings (loss) per share – Basic	(1.94)	(2.68)	(1.79)	0.91	0.66
Earnings (loss) per share – Diluted	(1.94)	(2.68)	(1.79)	0.88	0.61
Financial Position Data					
Total assets	184,807	178,901	234,959	160,793	82,890

Convertible senior notes, long term debt and capital lease obligations, less discount and current portion	126,682	119,190	120,281	52,377	8,185
Stockholders' equity (deficit)	(3,453)	27,196	66,105	77,461	53,509

2009 and 2008 amounts were restated in accordance with Accounting Standards Update ("ASU") No. 2009-15, *"Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing."*

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The table above reflects the results of equity and asset acquisitions from the respective date of acquisition for the following years:

- 2008 –Teledrift, Inc.;
- 2007 – Triumph Drilling Tools, Inc., CAVO Drilling Motors Ltd Co., and Sooner Energy Service, Inc.; and
- 2006 – Can-Ok Oil Field Services, Inc., Total Well Solutions, LLC, and LifTech, LLC.

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 the Company's 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, actual results could 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 for further clarification.

Executive Summary

The Company is a diversified global technology-driven growth company to the oil, gas, and mining industries by providing oilfield products, services and equipment. The Company operates in select domestic and international markets, including the Gulf Coast, the Southwest, the Rocky Mountains, the Northeastern and Mid-Continental US, Canada, Mexico, Central America, South America, Europe, Africa and Asia and markets products domestically and internationally in over 20 countries. The Company's customers include major integrated oil and natural gas companies, independent oil and natural gas companies, pressure pumping service companies, state-owned oil companies and international service supply chain management companies. The Company's ability to compete in the oilfield services market is dependent on the Company's ability to differentiate products and services, provide superior quality and service, and maintain a competitive cost structure. Company operations are impacted by natural gas and oil well drilling activity, the depth and drilling conditions of wells, the number of well completions and the level of work-over activity in North America. Drilling activity, is largely dependent on the volatility of natural gas and crude oil prices and expectations of future prices. The Company's results of operations depend heavily upon sustainable prices charged customers, which are impacted by drilling activity levels, availability of equipment and other resources, and competitive pressures. These combined market factors can lead to volatility in both revenue and profitability.

Historical market conditions are reflected in the table below:

	2010	2009	2008	2010 vs	2009 vs

				2009	2008
Average Active Drilling Rigs					
United States	1,549	1,089	1,879	42.2 %	(42.0) %
Canada	349	221	381	57.9 %	(42.0) %
Total North America	1,898	1,310	2,260	44.9 %	(42.0) %
Vertical Rigs (U.S.)	502	433	954	16.0 %	(54.6) %
Horizontal Rigs (U.S.)	825	455	553	81.3 %	(17.7) %
Directional Rigs (U.S.)	222	201	372	10.4 %	(46.0) %
Total Drilling Type (U.S.)	1,549	1,089	1,879		
Oil vs. Natural Gas Drilling Rigs					
Oil	795	382	543	108.1 %	(29.7) %
Natural Gas	1,103	928	1,717	18.9 %	(46.0) %
Total North America	1,898	1,310	2,260		
Average Commodity Prices					
West Texas Intermediate Crude Prices (per barrel)	$ 79.40	$ 61.65	$ 99.57	28.8 %	(38.1) %
Natural Gas Prices ($/mmbtu)	$ 4.25	$ 3.71	$ 8.07	14.6 %	(54.0) %

Source: Rig count: Baker Hughes, Inc. (www.bakerhughes.com); West Texas Intermediate Crude and Natural Gas Prices: Department of Energy, Energy Information Administration (www.eia.doe.gov).

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Global economic growth and increased demand for oil and natural gas are the primary drivers of customer expenditures to develop and produce oil and natural gas. The recovery within the global economy began in 2010 and is anticipated to continue in 2011. Increased economic activity, particularly in emerging Asia and Middle East economies, and market predictions for continued economic growth supports expectations of increasing demand for oil and natural gas. Spending by oil and natural gas exploration and production companies, which is dependent upon forecasts of the expected future supply and future demand for oil and natural gas products and associated estimates of costs to find, develop, and produce reserves, increased in 2010 as compared to 2009. Changes in oil and natural gas exploration and production spending resulted in increased demand for the Company's products and services.

In North America, customer expenditures increased for both oil and natural gas projects resulting in a 45% increase in the North American rig count in 2010 as compared to 2009. The increase in oil-directed drilling is a direct reflection of the global price of oil, which is currently trading at a premium, on a Btu basis, relative to natural gas in North America. The increase in gas-directed drilling was driven by activity in unconventional shale gas plays due to the favorable prices of wet gas, despite relatively low prices for natural gas. Spending on gas-directed projects in 2010 was supported by (1) hedges on production made in prior periods when futures prices were higher, (2) the need to drill and produce natural gas to hold leases acquired in earlier periods, (3) the influx of equity from companies interested in developing a position in the shale resource plays and (4) associated production of natural gas liquids in certain basins.

As a result of streamlining operational costs in 2009 and proactive management of operational costs during 2010, the Company was favorably positioned to respond to increased activity and product demand in 2010. Further, innovative sales initiatives and strategic international efforts enabled the Company to increase revenues by 30.6% in 2010 as compared to 2009.

Forecasting the Company's position in the current recovery cycle is challenging, as it differs from past cycles due to the overlay of continued worldwide uncertainties, including significant political unrest and radical regime and governmental changes in significant oil producing countries. Changes in product demand to liquid rich natural gas and oil products from natural gas products affected the type of industry drilling activity and increased petroleum pricing. Despite recent favorable activity the Company expects continued uncertainty in drilling activity in 2011 due to a number of factors including commodity prices, global demand for oil and natural gas, supply and depletion rates of oil and natural gas reserves, as well as broader variables including government fiscal policies and current and potential political unrest in key petroleum producing countries.

The oil field services sector experienced a cyclical low in the third quarter of 2009. Stabilization of the business and cost containment measures taken by the Company beginning in 2009 were still being realized throughout 2010. The Company expects improved economic conditions will continue throughout 2011 despite drilling activity uncertainty. As exploration and production companies' outlooks improve with higher expectations of forecast liquid-rich natural gas and oil prices, the Company remains optimistic capital budgets for drilling and completion activities will strengthen. The Company expects rig count in the oil basins, which have contributed to Drilling revenue with increased Teledrift business in the Permian Basin, to lead to margin relief on pricing.

The Company expects that North American gas market activity will continue to remain stable in unconventional plays such as Barnett, Haynesville, Marcellus and other basins which utilize the Company's drilling tools. In addition, the Company expects chemical additives will continue realizes to enhanced performance, when added to fracturing fluids utilized in this type drilling further supporting the stability of product demand of the Company's Chemicals segment which is closely aligned to rig count activity. The Company plans to pursue identified international opportunities in 2011.

The Company expects 2011 drilling and completion activity to remain relatively stable compared to 2010 levels. Market conditions are forecast to improve slightly and pricing is expected to remain competitive throughout 2011. The

Company intends to continue the strategic initiative to add drilling jars and shock subs to the company's fleet and to reduce the Company's sub-rental usage. The Company also intends to continue to pursue international market opportunities with the Teledrift line of MWD products during 2011.

With research efforts focused on the Chemicals segment, the Company has been able to timely respond to the increased demand for growth in unconventional liquid rich and oil sand formation plays. As a result of the Company's success in unconventional areas, such as the Marcellus Shale, and within tight sand gas play areas, such as the Niobrara, the Company expects to continue to experience growth within identified basins by leveraging the proven success of the Company's products, in particular, complex nanofluids.The Drilling segment has effectively redesigned the Company's motors to operate more successfully in areas such as Haynesville, Barnett and Bakken. The increase in operational performance of the Company's Artificial Lift segment enabled the Company to significantly increase the customer base in 2010.

Capital expenditures in the Drilling segment were $4.7 million in 2010 compared to $6.2 million in 2009. Capital expenditures were significantly curtailed in 2010 in response to decreased demand. Management has forecast Drilling capital expenditures of $7.9 million in 2011; however, this amount may fluctuate dependent upon market demand and realized results of operations. The Company intends to sharpen the focus of capital expenditures within the Drilling segment to further increase the Company's international presence.

The Company's business is comprised of three reportable segments: Chemicals, Drilling and Artificial Lift. The Company's focus is on serving the drilling-related needs of oil and gas companies primarily through the Chemicals and Drilling segments, and the production related needs of oil and gas companies through the Artificial Lift and Chemicals segments. The Company believes product offerings and geographical presence throughout all three business segments provides the Company with diverse sources of cash flow. Although each segment has unique technical expertise, all segments share a commitment to provide customers with quality, competitively priced equipment and services.

- The Chemicals segment is comprised of two business divisions: Specialty Chemicals and Logistics. Specialty Chemicals designs, develops, manufactures, packages and markets specialty chemicals used in oil and gas well cementing, stimulation, acidizing, drilling and production. Logistics manages automated material handling, loading facilities, and blending capabilities for oilfield services companies.

- The Drilling segment rents, inspects, manufactures and markets down-hole drilling equipment for the energy, mining, water well and industrial drilling sectors.

- The Artificial Lift segment assembles and markets artificial lift equipment, including the Petrovalve line of rod pump components, electric submersible pumps, gas separators, valves and services that support coal bed methane production.

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Over the past several years, the Company has grown through strategic acquisitions, organic growth and investments in complementary or competing businesses in an effort to expand product offerings and geographic presence within targeted markets. The Company mitigates oilfield service cyclical risk by balancing drilling versus production; rental versus service; domestic versus international; and natural gas versus crude oil operations.

Acquisitions completed by the Company in the preceding three years include:

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Teledrift, Inc. ("Teledrift"), designs and manufactures wireless survey and MWD equipment, in February 2008.

Results of Operations (in thousands):

		Year Ended December 31,				
		2010		**2009**		**2008**
Revenue	$	146,982	$	112,550	$	226,063
Cost of revenue		94,012		83,166		135,307
Gross margin		52,970		29,384		90,756
Selling, general and administrative cost		41,861		36,943		46,311
Depreciation and amortization		4,543		4,926		5,570
Research and development costs		1,441		2,118		1,931
Impairment of long-lived assets		8,898		-		-
Loss on disposal of long-lived assets		2,104		-		-
Impairment of goodwill and other intangible assets		390		18,500		67,695
Loss from operations		(6,267)		(33,103)		(30,751)
Change in fair value of warrant liability		(21,464)		465		-
Interest and other expense, net		(21,279)		(15,679)		(13,990)
Loss before income taxes		(49,010)		(48,317)		(44,741)
(Provision) benefit for income taxes		5,545		(2,016)		10,499
NET LOSS	**$**	**(43,465)**	**$**	**(50,333)**	**$**	**(34,242)**

Results for 2010 compared to 2009—Consolidated

Revenue for the year ended December 31, 2010 was $147.0 million, an increase of $34.4 million, or 30.6%, compared to $112.6 million for the same period in 2009. Revenue increased across all of the company's segments due to improved pricing, increased drilling activity, and slight recovery of industry demand for products.

Consolidated gross margin increased by $23.6 million, or 80.3%, to $53.0 million in 2010 from $29.4 million in 2009. Gross margin as a percentage of sales increased to 36.0% for 2010 from 26.1% for 2009. This favorable variance resulted from increased product sales ($21.5 million or 29.7%) and rental revenue ($13.5 million or 47.3%) combined with direct operational expense savings offset by a 13.0% increase in cost of revenue. Increased cost of revenue was due to increased costs of materials, rentals and freight proportionate to increased activity. Gross margin is calculated as revenue less associated cost of revenue, inclusive of personnel, occupancy, depreciation and other expenses directly associated with the generation of revenue.

Selling, general and administrative costs, ("SG&A") are not directly attributable to products sold or services rendered. SG&A costs for the year ended December 31, 2010 were $41.9 million, an increase of 13.3%, compared to $36.9 million in 2009. The comparative period over period increase resulted from increased incentive stock compensation expense of $4.0 million and professional fees of $2.1 million. Non-cash incentive stock compensation expense increased due to recognition of $3.0 million of non-cash compensation expense during the second quarter of 2010 related to prior equity grants to the Company's former President and CEO, which vested at the time of his retirement from the Company on June 30, 2010 and vesting of other outstanding existing equity grants. The increase in professional fees related to the Company's March 31, 2010 financing, defense of class action lawsuits and use of third party technical consultants (e.g., information technology; investment; and valuation advisors).

Depreciation and amortization costs were $4.5 million for the year ended December 31, 2010, a decrease of approximately 8.1% compared to the same period in 2009.

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Research and development ("R&D") expenses were $1.4 million for the year ended December 31, 2010, a decrease of 33.3%, compared to $2.1 million during the same period in 2009. The reduction in R&D expense is attributable to more realigned spending objectives on key initiatives driven by the economic recession and management cost containment objectives. The Company anticipates 2011 R&D spending levels to remain consistent with 2010. R&D is charged to expense as incurred.

Costs associated with impairments totaled $8.9 million and $0.4 million, related to long-lived asset and other intangibles, for the year ended December 31, 2010, a decrease of $9.2 million or 49.8% compared to $18.5 million in 2009. The impairment valuation recognized during 2010 primarily related to long-lived assets within the Drilling segment. During the fourth quarter of 2010 revenue generation trends of certain identified rental assets were not performing as anticipated by management in the Company's 2010 forecast. Upon review, management determined the recoverability of the carrying value of certain assets to be less than the expected revenue generation capacity of the assets. The $18.5 million recognized in 2009 was attributable to the Teledrift division.

Revenue within the Drilling segment increased $15.0 million, or 29.6% in 2010 due to increased demand for products resulting from a shift in the type of drilling activity as well as fluctuations in oil and natural gas commodity prices. Management believes the current cost structure is appropriate for 2011 forecast levels of activity and does not foresee significant future adjustments. Changes in market demand or forecast assumptions could cause management to pursue additional cost containment efforts.

During the year ended December 31, 2010, the warrant liability increased by $21.5 million to $26.2 million. The increase has been recognized in the statement of operations as a noncash expense. This liability will not be settled in cash. Future fluctuations in the warrant liability will be recognized as noncash income or expense.

Interest expense was $19.4 million for the year ended December 31, 2010, an increase of $3.9 million or 25.0% compared with $15.5 million in 2009. The increase was the result of an increase in the interest rate associated with the refinancing of the Company's senior credit facility from 8.5% to 12.5% combined with the amortization of related issuance costs of $2.0 million incurred during the year (See "Capital Resources and Liquidity"), commitment fee payments of $7.3 million.

An income tax benefit of $5.5 million was recorded for the year ended December 31, 2010, reflecting an effective tax rate of (11.3)%, compared to a tax provision of $2.0 million for the year ended December 31, 2009, reflecting an effective tax rate of (4.2%). The change in the Company's effective tax rate is primarily due to a $4.2 million increase in the valuation allowance recorded in 2010 against the deferred tax asset of one of our filing jurisdictions and a $7.5 million increase to tax expense recorded in 2010 for the nondeductible expense related to the warrant liability.

Results for 2009 compared to 2008—Consolidated

Revenue for the year ended December 31, 2009 was $112.6 million, a decrease of $113.5 million, or 50.2%, compared to $226.1 million for the same period in 2008. Revenue decreased across all of the Company's segments as depressed petroleum and natural gas prices drove down rig count and related drilling activity, negatively impacting activity volume in 2009. Pricing pressures were also a factor in the decline of revenue as customers switched to less expensive products where possible.

Consolidated gross margin decreased $61.4 million and as a percentage of sales decreased to 26.1% in 2009 from 40.1% in 2008 due to margin compression in the Drilling segment. Although direct expense reductions of $5.9 million were realized in 2009 versus 2008, the decrease in direct expenses did not occur as swiftly as the decline in revenue.

SG&A costs were $36.9 million for the year ended December 31, 2009, a decrease of 20.2%, compared to $46.3 million in 2008. The decrease was primarily due to a $9.3 million reduction in indirect personnel and personnel related costs and professional fees due to headcount reduction and cost containment efforts.

Depreciation and amortization costs were $4.9 million for 2009, a decrease of approximately 11.6% compared to $5.6 million in 2008. A reduction of amortizable intangible assets and depreciable fixed assets due to the impairment recorded in 2008 was the primary cause of the decrease.

R&D costs in 2009 were $2.1 million, an increase of 9.7%, compared to $1.9 million in 2008. R&D costs in the Chemicals segment were 65% and 89% of total R&D expense in 2009 and 2008, respectively.

In the second quarter of 2009, the Company recognized goodwill impairment of approximately $18.5 million related to the Teledrift reporting unit. No impairment was recorded as part of management's 2009 annual assessment of goodwill.

Interest expense was $15.5 million for the year ended December 31, 2009 versus $13.9 million for the comparative 2008 period. The increase primarily related to accretion of debt discount recognized effective January 1, 2009 associated with adoption of a new accounting principle.

An income tax provision of $2.0 million was recorded for the year ended December 31, 2009, resulting in an effective tax rate of (4.2)%, compared to a tax benefit of $10.5 million for the year ended December 31, 2008, with an effective tax rate of 23.5%. The change in the Company's effective tax rate, resulted from an $18.8 million valuation allowance recorded in 2009 against deferred tax assets of one of the Company's filing jurisdictions and due to a $19.3 million impairment charged assessed in 2008 which impacted the 2008 tax provision.

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Results by Segment

Chemicals and Logistics *(dollars in thousands)*	**For the Year Ended December 31,**		
	2010	**2009**	**2008**
Revenue	$ 66,121	$ 49,296	$ 109,356
Gross margin	$ 29,249	$ 21,667	$ 49,119
Gross margin %	44.2 %	44.0 %	44.9 %
Income from operations	$ 19,833	$ 12,964	$ 37,433
Income from operations %	30.0 %	26.3 %	34.2 %

Results for 2010 compared to 2009—Chemicals and Logistics

Chemicals' revenue for 2010 was $66.1 million, an increase of $16.8 million, or 34.1%, as compared to $49.3 million in 2009. Recovery of previously granted product and service price reductions, increased international sales and increased demand for microemulsion products from new and existing customers drove the increase. Additionally, new products generated from the Company's ongoing R&D activities continue to be favorably received by customers. The favorable variance also correlates with an 18.9% increase in average natural gas rig activity (2010: 1,103 rigs vs. 2009: 928 rigs) within the industry and corresponding product sales increases of $17.5 million. The favorable variances was offset by a decrease in customer service revenue ($0.7 million) in the first half of 2010 as compared to the first half of 2009 in response to industry uncertainty regarding ramifications of the British Petroleum Deepwater Horizon oil disaster. Correspondingly, the drilling moratorium in the Gulf of Mexico significantly impacted the Company's Logistics division contract in the Gulf of Mexico.

The gross margin increased $7.6 million, or 35% in 2010 as compared to 2009; however, the gross margin as a percentage of revenue remained relatively flat at 44.2% for the year ended December 31, 2010, compared to 44.0% for the year ended December 31, 2009. Favorable variances were due to increased product sales volumes and favorable product mix margins.

Income from operations was $19.8 million for 2010, an increase of approximately 53.0% compared to $13.0 million in 2009. Income from operations as a percentage of revenue increased to 30.0% for 2010 from 26.3% for the same period in 2009. Favorable variance is attributable to increased product sales and favorable product mix margins.

Results for 2009 compared to 2008—Chemicals and Logistics

Chemicals revenue for the year ended December 31, 2009 was $49.3 million, a decrease of $60.1 million, or 54.9%, compared to $109.4 million for the year ended December 31, 2008. The decrease in revenue was primarily due to a 46% reduction in volume driven by lower crude and natural gas prices and associated steep drop in rig and well fracturing activity. Further, pricing pressures drove customers to lower priced products resulting in a 24% decrease in average sales dollars per unit sold in 2009 versus 2008. Sales of the Company's patented micro-emulsion chemicals declined 59% to $31.6 million in 2009 compared to 77.3 million in 2008. Demand for micro-emulsion chemicals is contingent upon various market variables including the fact that micro-emulsion chemicals historically have a higher per-unit cost.

Gross margin decreased $27.5 million in 2009 due to reductions in revenue. Slight reductions in gross margin as a percentage of revenue from 44.9% to 44.0% were realized in 2009 versus 2008, respectively. Product margins as a percentage of product revenue remained flat. Field direct expenses as a percentage of segment revenue increased to 8.1% in 2009 from 5.5% in 2008 as revenue decreased at a higher rate than cost containment reductions. Chemical product costs fluctuated significantly with the price of petroleum. The Company has historically not led the market in pricing, accordingly, product margins are directly impacted by market and cost fluctuations.

Income from operations was $13.0 million for the year ended December 31, 2009, a decrease of approximately 65.4% compared to the same period in 2008. Income from operations as a percentage of revenue decreased to 26.3% for 2009 versus 34.2% in 2008. Field indirect costs decreased by $3.2 million or 26.8% due primarily to on-going cost containment efforts initiated in 2008. The rate of cost reductions, however, did not keep pace with the decline in revenue; accordingly field indirect costs increased as a percentage of revenue to 17.7% in 2009 from 10.9% in 2008.

Drilling Products *(dollars in thousands)*	**For the Year Ended December 31,**		
	2010	**2009**	**2008**
Revenue	$ 65,782	$ 50,774	$ 98,262
Gross margin	$ 18,991	$ 4,781	$ 36,897
Gross margin %	28.9 %	9.4 %	37.5 %
Loss from operations	$ (9,738)	$ (32,084)	$ (43,840)