

FLOTEK INDUSTRIES INC/CN/
Form DEF 14A
July 13, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant ☒ x

Filed by a Party other than the Registrant ☐ ..

Check the appropriate box:

- | | |
|--|---|
| <input type="checkbox"/> .. Preliminary Proxy Statement | <input type="checkbox"/> .. Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> x Definitive Proxy Statement | |
| <input type="checkbox"/> .. Definitive Additional Materials | |
| <input type="checkbox"/> .. Soliciting Material Pursuant to Section 240.14a-12 | |

FLOTEK INDUSTRIES, INC.

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

☒ x No fee required.

☐ .. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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FLOTEK INDUSTRIES, INC.

2930 W. Sam Houston Pkwy N., Suite 300

Houston, Texas 77043

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON AUGUST 13, 2010

To the Stockholders of Flotek Industries, Inc.:

At the direction of the Board of Directors of Flotek Industries, Inc. (the "Company"), a Delaware corporation, NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of the Company will be held at the Flotek Corporate Office, 2930 W. Sam Houston Pkwy. N, Suite 300, Houston, Texas 77043, on Friday, August 13, 2010 at 2:00 p.m. (local time), for the purpose of considering and voting upon the following matters:

1. The election of five directors to serve until the next annual meeting of stockholders of the Company or until their successors are duly elected and qualified, or until their earlier resignation or removal.
2. The approval of our 2010 Long Term Incentive Plan.
3. The approval of the ability of the Company to make principal repayments under the Amended and Restated Credit Agreement, dated as of March 31, 2010, among the Company, Whitebox Advisors LLC and certain lenders named therein (the "Amended and Restated Credit Agreement") by issuing shares of the Company's common stock (the "Principal Repayment Provision").
4. The approval of the ability of the Company to pay a portion of the commitment fee due under the Amended and Restated Credit Agreement by issuing shares of the Company's common stock (the "Commitment Fee Payment Provision").
5. The ratification of the selection of the independent registered public accounting firm for the year ended December 31, 2010.
6. Any other business which may be properly brought before the meeting or any adjournment thereof.

By order of the Board of Directors

Casey Doherty
Corporate Secretary

July 13, 2010

YOUR VOTE IS IMPORTANT

TO ASSURE YOUR REPRESENTATION AT THE MEETING, PLEASE SIGN, DATE AND
RETURN YOUR PROXY AS PROMPTLY AS POSSIBLE. AN ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE
UNITED STATES, IS ENCLOSED FOR THIS PURPOSE.

Stockholders with questions about the Annual Meeting of Stockholders or who need assistance in voting
their shares may call the Company's proxy solicitor, Innisfree M&A Incorporated, toll-free at (888) 750-5834. Banks and brokers may call
collect at (212) 750-5833.

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FLOTEK INDUSTRIES, INC.

2930 W. Sam Houston Pkwy N., Suite 300

Houston, Texas 77043

PROXY STATEMENT

This Proxy Statement and the accompanying form of proxy are being sent to the stockholders of Flotek Industries, Inc. (the "Company"), a Delaware corporation, in connection with the solicitation by the Board of Directors of the Company (the "Board") of proxies to be voted at the Annual Meeting of Stockholders of the Company (the "Meeting") to be held at 2:00 p.m. (local time) on Friday, August 13, 2010 at the corporate offices of the Company at, 2930 W. Sam Houston Pkwy. N, Suite 300, Houston, Texas 77043 and at any adjournments thereof.

The Notice of Meeting, this Proxy Statement and the accompanying form of proxy are first being mailed to the stockholders on or about July 13, 2010. The 2009 Annual Report of the Company has been furnished to the stockholders with this Proxy Statement.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on August 13, 2010. The proxy statement and annual report to security holders are available at www.flotekind.com/proxymaterials.

You may obtain directions to attend the meeting and vote in person by contacting our investor relations department at (713) 849-9911.

At the Meeting, stockholders will be asked (i) to consider and vote upon the election of five nominees to serve on the Board; (ii) to approve the 2010 Long Term Incentive Plan; (iii) to consider and vote upon the approval of the ability of the Company to make principal repayments under the Amended and Restated Credit Agreement, dated as of March 31, 2010, among the Company, Whitebox Advisors LLC and certain lenders named therein (the "Amended and Restated Credit Agreement") by issuing shares of the Company's common stock (the "Principal Repayment Provision"); (iv) the approval of the ability of the Company to pay a portion of the commitment fee due under the Amended and Restated Credit Agreement by issuing shares of the Company's common stock (the "Commitment Fee Payment Provision"); (v) to consider and vote upon the ratification of the selection of the independent registered accounting firm; and (vi) to consider and take action upon such other matters as may properly come before the Meeting.

VOTING SECURITIES

The Board has fixed the close of business on July 7, 2010, as the record date for the determination of stockholders entitled to notice of, and to vote at, the Meeting. At the close of business on such date, there were outstanding and entitled to vote 30,374,373 shares of common stock, \$0.0001 par value per share ("Common Stock") of the Company, which is the Company's only authorized and outstanding class of stock entitled to vote at the Meeting.

Holders of at least one-third of the outstanding shares of Common Stock are required to be represented at the Meeting, in person or by proxy, to constitute a quorum. Each outstanding share of Common Stock as of the record date is entitled to one vote. There will be no cumulative voting of shares for any matter voted upon at the Meeting.

Directors are elected by a plurality of the votes cast. Abstentions and broker non-votes will be disregarded and have no effect on the outcome of the election of directors.

The affirmative vote of at least a majority of the shares of Common Stock represented at the Meeting is required to approve the other matters to be considered at the meeting. With respect to Proposals 3 and 4, the

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affirmative vote of at least a majority of the votes cast on each such proposal is required to approve such matters pursuant to NYSE rules; provided, however, that the total number of votes cast with respect to each such proposal represents a majority of the shares of common stock entitled to vote thereon. In determining whether each such other proposal has received the requisite number of affirmative votes, abstentions and broker non-votes will have the same effect as votes against the proposal.

If the enclosed form of proxy is properly executed and returned to the Company prior to or at the Meeting and is not revoked prior to its exercise, all shares of Common Stock represented thereby will be voted at the Meeting and, where instructions have been given by a stockholder, will be voted in accordance with such instructions.

Any stockholder executing a proxy which is solicited hereby has the power to revoke it prior to its exercise. Revocation may be made by attending the Meeting and voting the shares of Common Stock in person or by delivering to the Secretary of the Company at the principal executive offices of the Company located at 2930 W. Sam Houston Parkway N., Suite 300, Houston, Texas 77043, prior to exercise of the Proxy, a written notice of revocation or a later-dated, properly executed proxy.

The solicitation of proxies will be by mail, but proxies also may be solicited by telephone, telegram or in person by directors, officers and other employees of the Company. The Company will bear all costs of soliciting proxies. In order to solicit proxies, the Company will also request financial institutions, brokerage houses, custodians, nominees and fiduciaries to forward proxy materials to the beneficial owners of shares of common stock as of the record date and will reimburse such persons for their reasonable expenses of forwarding the proxy materials in accordance with customary practice. In addition, the Company has engaged Innisfree M&A Incorporated to provide proxy solicitation services for a fee of \$15,000, plus reimbursement of out-of-pocket expenses.

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PROPOSAL 1: ELECTION OF DIRECTORS

Board of Directors. The members of the Board serve one-year terms. Directors are elected by a plurality of the votes cast. Abstentions and broker non-votes will be disregarded and have no effect on the outcome of the election of directors.

Recommendation; Proxies. The Board recommends a vote **FOR** each of the nominees named below. The persons named in the enclosed proxy card will vote all shares over which they have discretionary authority **FOR** the election of the nominees named below. Although our Board does not anticipate that any of the nominees will be unable to serve, if such a situation should arise prior to the meeting, the appointed persons will use their discretionary authority pursuant to the proxy and vote in accordance with their best judgment.

Number of Directors. The Board has nominated five directors for election to the Board at the Meeting.

The Board of Directors believes that it is necessary for each of the Company's directors to possess many qualities and skills that enable them to understand the complexities of the Company's business and effectively guide the management and direction of the Company. When searching for new candidates, the Corporate Governance and Nominating Committee considers the evolving needs of the Board and searches for candidates that fill current or anticipated future vacancies. The Board of Directors also believes that all directors must possess a considerable amount of business management and educational experience. The Corporate Governance and Nominating Committee first considers a candidate's management experience and then considers issues of judgment, background, stature, conflicts of interest, integrity, ethics and commitment to the goal of maximizing stockholder value when considering director candidates. The Corporate Governance and Nominating Committee also focuses on issues of diversity, such as diversity of gender, race and national origin, education, professional experience and differences in viewpoints and skills. The Corporate Governance and Nominating Committee does not have a formal policy with respect to diversity; however, the Board and the Nominating Committee believe that it is essential that the Board members represent diverse viewpoints. In considering candidates for the Board, the Corporate Governance and Nominating Committee considers the entirety of each candidate's credentials in the context of these standards. With respect to the nomination of continuing directors for re-election, the individual's contributions to the Board are also considered.

All of our directors bring to our Board a wealth of executive leadership experience derived from their service as executives and, in most cases, chief executive officers of large corporations. They also bring extensive board experience. Certain individual qualifications and skills of our directors that contribute to the Board's effectiveness as a whole are described in the following paragraphs.

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Nominees. The following table sets forth information for each nominee. Each nominee has consented to be named in this proxy statement and to serve as a director, if elected.

Name	Principal Occupation	Age	Director Since
John W. Chisholm	Mr. Chisholm has been our Interim President since August 2009 and a director since November 1999. Mr. Chisholm is the founder of Wellogix, Inc., which develops software for the oil and gas industry to streamline workflow, improve collaboration, expedite the inter-company exchange of enterprise data and communicate complex engineered services. Previously he co-founded and was President of ProTechnics Company from 1985 until its sale to Core Laboratories in December of 1996. After leaving Core Laboratories as Senior Vice President of Global Sales and Marketing in 1998, he started Chisholm Energy Partners, an investment fund targeting mid-size energy service companies. Mr. Chisholm serves on the board of directors of NGSG, Inc. an NYSE company specializing in compression technology for the oil and gas industry since December 2006. He serves on both the Compensation and Governance Committees of NGSG. Mr. Chisholm has been selected to be on the editorial advisory board of Middle East Technology by Oil and Gas Journal. Mr. Chisholm holds a Business Administration degree from Ft. Lewis College. Mr. Chisholm is a resident of Montgomery Texas. Mr. Chisholm's experience in starting up two companies brings operating and financial expertise to the board as well as open views of leadership.	55	1999
Kenneth T. Hern	Mr. Hern has been a director, member of the Compensation and Audit Committees and Chairman of the Governance and Nominating Committee since November 6, 2009. Mr. Hern has also served as a member of the Board of Directors of Mesa Energy Holdings, Inc. since February 22, 2010. Mesa Energy Holdings, Inc. is a publicly traded oil and gas exploration and production company. Mr. Hern served as the Chairman and CEO of Nova Biosource Fuels, Inc. (Nova) from 2005 until April 12, 2010. Nova filed Chapter 11 in April 2009 seeking protection under federal bankruptcy statutes. In April 2010, the court approved a controlled dismissal of all Nova entities (other than Nova Holding Seneca LLC, which is expected to be dismissed in June 2010). Mr. Hern retired from Texaco, Inc. in 1994 after 25 years of service. During his tenure he served as President of Texaco Brazil, President of Texaco Saudia Inc., and Vice Chairman and Managing Director of Texaco Nigeria Limited. Mr. Hern is a resident of Montgomery, Texas. Mr. Hern brings his experience as Chairman and CEO of a public company as well as his management experience to the Board.	72	2009
Richard O. Wilson	Mr. Wilson has been a director since 2003 and a member of the Governance and Nominating and Audit Committees and Chairman of the Compensation Committee since November 6, 2009. Mr. Wilson was Group Vice President of Brown & Root World Offshore Operations from May 1971 to July 1979 and served as a Director of Brown & Root from 1973 to 1979. Mr. Wilson also served as Chairman of Dolphin Drilling A/S Oil and Gas Company and of AOC International and OGC International PLC an offshore platform final assembly company from 1983 to 1997. Mr. Wilson has served as director for Callon Petroleum Company Oil and Gas Exploration and Production company since March 1995 and is an offshore construction consultant with over 50 years of experience. He received a Bachelor of Science degree in Civil Engineering from Rice University. Mr. Wilson currently is a Director	80	2003

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Name	Principal Occupation	Age	Director Since
John S. Reiland	<p>of Houston Museum of Printing History. Mr. Wilson is a resident of Houston, Texas. Mr. Wilson was a pioneer in the oil & gas industry, and his professional education and financial expertise brings depth to the Board.</p> <p>Mr. Reiland has been a director, member of the Compensation, Governance and Nominating Committees and Chairman of the Audit Committee since November 9, 2009. Mr. Reiland, a Certified Public Accountant, has served as the Chief Financial Officer of SingerLewak LLP, a leading accounting services firm headquartered in Los Angeles since 2008. Mr. Reiland has significant experience in corporate leadership and finance including the chief executive officer, chief financial officer and chief accounting officer roles. Mr. Reiland has focused a significant portion of his professional practice in the area of turnaround and restructuring work, including having served as the Chief Financial officer of Starvox Communications from August 2007 until its Chapter 7 liquidation filing in February 2008; Chief Executive Officer and Chief Restructuring Office for Ronco Corporation from 2006 to 2007 during which Ronco filed for restructuring under Chapter 11 in June 2007; Chief Financial Officer of US Dataworks, Inc. from 2003 until 2006. He has served on the Boards of both Ronco and US Dataworks as well as on the Board of Directors and as Chairman of the Audit Committee for Nova Biosource Fuels, Inc. (Nova) from July 2007 until October 2009. Nova filed Chapter 11 in April 2009 seeking protection under federal bankruptcy statutes. In April 2010, the court approved a controlled dismissal of all Nova entities (other than Nova Holding Seneca LLC, which is expected to be dismissed in June 2010). Mr. Reiland also served as Chief Financial Officer of NEON Systems, Inc. from 1996 until 2000, including leading its successful IPO in 1999. Mr. Reiland is a member of AICPA and is Certified in Financial Forensics. He is a resident of Los Angeles, California. Mr. Reiland's background as a financial expert qualifies him to serve as Chair of the Audit Committee.</p>	60	2009
L.V. Bud McGuire	<p>Mr. McGuire is a co-founder of Alpha Petroleum Services, a provider of management-related consulting services to the energy industry. Prior to founding Alpha Petroleum Services, Mr. McGuire served on the board of directors and as Senior Vice President of Mariner-Energy Inc. from 1998 to 2001. Prior to joining Mariner-Energy, Mr. McGuire was Vice President-Operations for Enron Oil & Gas International, Inc. from 1997 to 1998. From 1991 to 1996, he served as Senior Vice President over worldwide production operations with Kerr-McGee Corporation. His experience prior to Kerr-McGee included Hamilton Brothers Oil and Gas Ltd. From 1981 to 1991, where he served as Vice President of Operations and as Vice President, Production. He began his career in 1966 with Conoco. Mr. McGuire received a Bachelor of Science degree in Industrial Engineering from LeTourneau University. He has served on the Board of Trustees of LeTourneau University since 2002. He is a resident of Montgomery, Texas. Mr. McGuire's extensive experience in the energy industry as well as his experience in founding a successful company brings significant additional operating and management experience to the Board.</p>	68	

Table of Contents**Security Ownership of Certain Beneficial Owners and Management.**

The following table sets forth the beneficial ownership of Common Stock as of July 7, 2010, by (i) each of our directors (including each nominee), (ii) each named executive officer set forth in the Summary Compensation Table, (iii) all of our directors and executive officers as a group, and (iv) each other person known by us to be a beneficial owner of more than 5% of our outstanding Common Stock.

Name	Shares Owned (a)	Right to Acquire (b)	Total Shares	Percent of Class (c)
Named Executive Officers and Directors				
Jerry D. Dumas, Sr. (d)	437,004	763,899	1,200,903	3.86%
John W. Chisholm (e)	103,835	435,163	538,998	1.75%
Kenneth T. Hern	15,664		15,664	*
John S. Reiland	15,664		15,664	*
Richard O. Wilson	108,968	34,831	143,799	*
L.V. Bud McGuire				*
Jesse E. Neyman	55,002	57,511	112,513	*
Steven A. Reeves (f)	227,681	40,084	267,765	*
All directors and executive officers as a group (8 total)	963,818	1,331,488	2,295,306	7.24%
Other 5% Holders				
Whitebox Advisors LLC (g)	2,812,501	213,477(h)	3,025,978	9.99%
Gates Capital Management, Inc. (i)	2,187,500	907,845(j)	3,095,345	9.99%

* Less than 1%

- (a) Except as otherwise disclosed, the persons named in the table have sole voting and investment power of all shares of Common Stock which are beneficially owned by them. Includes the following number of unvested shares of restricted stock for the persons indicated: Mr. Dumas 199,513; Mr. Chisholm 13,238; Mr. Reiland 15,644; Mr. Hern 15,644; Mr. Wilson 13,238; Mr. Neyman 25,321; Mr. Reeves 93,291.
- (b) Shares subject to options granted pursuant to the Company's incentive plans and exercisable within 60 days of July 7, 2010. Additionally, Mr. Dumas has convertible preferred stock and warrants which are convertible and exercisable into Common Stock.
- (c) Based on an aggregate of 30,374,373 shares of Common Stock issued and outstanding as of July 7, 2010. This assumes that all options beneficially owned by the person are exercised for shares of Common Stock. The total number of shares outstanding used in calculating this percentage assumes that none of the options beneficially owned by other persons are exercised for shares of Common Stock.
- (d) Includes 18,096 shares of Common Stock owned by Saxton River Corporation and 26,000 shares of Common Stock owned by DTB Foundation, both of which are controlled jointly by Mr. and Mrs. Dumas. Total shares beneficially owned do not include shares of common stock issuable upon conversion of certain shares of preferred stock or exercise of certain warrants that are not issuable within 60 days of the date hereof, as a result of provisions in the governing instruments of such preferred stock and warrants limiting the conversion or exercise thereof if such conversion or exercise would cause the holder to beneficially own more than 4.99% of our common stock. Per the Retirement Agreement with the Company, all unvested stock options and unvested restricted stock awards vested on June 30, 2010.
- (e) Includes 20,470 shares of Common Stock held by ProTechnics II Inc., of which Mr. Chisholm is a manager. Mr. Chisholm has granted a right to an employee of the Company in connection with a loan made by such employee to a company controlled by Mr. Chisholm that entitles the lender, at the lender's option, to receive repayment of such loan in shares of Flotek stock owned by Mr. Chisholm, and the shares reflected above that are directly owned by Mr. Chisholm are subject to this contractual encumbrance. The Board has amended the Company's Insider Trading Policy to prohibit officers and directors from pledging their shares of Flotek stock, but an exception to this prohibition was made for existing arrangements such as this one.
- (f) Includes shares acquired through the Company's 401(k) Plan.
- (g) The address of Whitebox Advisors LLC (Whitebox) is 3033 Excelsior Boulevard, Suite 300, Minneapolis, Minnesota 55416. Andrew J. Redleaf, who is the managing member of the general partner of: (i) Whitebox Hedged High Yield Partners, LP; (ii) IAM Mini-Fund 14 Limited; (iii) Pandora Select Partners, LP;

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- (iv) Whitebox Special Opportunities Fund, LP Series B; (v) Whitebox Combined Partners, LP; (vi) Whitebox Convertible Arbitrage Partners, LP and (vii) Whitebox Intermarket Partners, LP (collectively, the Funds), exercises voting and dispositive power over the securities held by each of the Funds. Whitebox may be deemed to be the beneficial owner of the securities held by the Funds, although all reported securities are owned by the Funds.
- (h) Does not include shares of common stock issuable upon conversion of the Company's 5.25% Convertible Senior Secured Notes due 2028 (the Notes) that are not issuable within 60 days of the date hereof as a result of provisions in the governing instruments of such Notes limiting the conversion thereof if such conversion would cause the holder, together with any affiliate, to own more than 9.99% of our Common Stock.
- (i) The address of Gates Capital Management, Inc. (Gates) is 1177 Avenue of Americas, 32nd Floor, New York, New York 10036. Gates Capital Management, Inc., which is controlled by Jeffrey L. Gates, is the general partner of Gates Capital Partners, L.P., which is the general partner of ECF Value Fund, L.P. and ECF Value Fund II, L.P. Gates is also the investment manager of ECF Value Fund International, Ltd. Jeffrey L. Gates exercises voting and dispositive power over the securities held by each of the funds listed above (collectively, the Funds). Gates may be deemed to be the beneficial owner of the securities held by the Funds, although all reported securities are owned by the Funds.
- (j) Does not include shares of common stock issuable upon conversion of the Company's Notes that are not issuable within 60 days of the date hereof as a result of provisions in the governing instruments of such Notes limiting the conversion thereof if such conversion would cause the holder, together with any affiliate, to own more than 9.99% of our Common Stock.

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BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD

Meeting Attendance

During 2009, the Board held 23 meetings of the full Board and 42 meetings of committees. The Corporate Governance and Nominating Committee held eight meetings, the Compensation Committee held six meetings, the Audit Committee held 25 meetings and the Strategic Planning Committee met three times during 2009. Effective August 2009, the Strategic Planning Committee was dissolved. Each director attended at least 75% of the aggregate number of meetings of the Board and Committees of the Board on which he served.

The Company does not have a formal policy requiring members of the Board to attend the Annual Meeting, although all directors are strongly encouraged to attend. Of the Directors then in office, Messrs. Wilson, Chisholm and Dumas attended the last Annual Meeting of Stockholders.

Compensation

In June 2009, the Board approved a 10% deferral in all board compensation. This was in addition to the 10% reduction approved in March of 2009. In October 2009, the 10% deferral was rescinded, but the 10% reduction made in March 2009 was kept in force, leaving annual retainer and meeting fees paid to non-employee directors at their March 2009 amounts. Although board fees paid in 2010 have been paid at the March 2009 reduced rates, the Board has yet to determine whether to continue to pay the reduced board fees for the remainder of 2010 or revert back to the pre-reduction levels.

In February 2010, awards of restricted stock were made to three non-employee directors.

Executive Sessions

Pursuant to the Company's Corporate Governance Guidelines, non-management directors of the Board are required to meet on a regularly scheduled basis without the presence of management. The chairmanship of these sessions is rotated among the non-management directors on a meeting basis, in order of seniority, with the most senior non-employee director serving first. During 2009, the non-management directors met in five executive sessions without management present.

Director Independence

The Board has determined that Mr. McGuire and each of the current directors except for Mr. Dumas and Mr. Chisholm is independent as that term is defined by rules of the New York Stock Exchange and, in the case of the Audit Committee, the Securities and Exchange Commission. Mr. Dumas is not an independent director because he was an officer of the Company until August 2009, and was an employee of the Company until June 30, 2010 pursuant to his retirement agreement. Mr. Chisholm is not an independent director while he is the Interim President.

Also, neither Mr. McGuire nor of the non-employee directors has any relationship with the Company other than being a director and stockholder, or any transaction or arrangement that interferes with each director's independence.

Risk Management

The Board has an active role, as a whole and at the committee level, in overseeing management of the Company's risks. The Board regularly reviews information regarding the Company's credit, liquidity and operations, as well as the risks associated with each. The Company's Compensation Committee is responsible for overseeing the management of risks relating to the Company's executive compensation plans and arrangements. The Audit Committee oversees management of financial risks. The Corporate Governance and Nominating Committee manages risks associated with the independence of the Board of Directors and potential conflicts of interest. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board of Directors is regularly informed through committee reports about such risks.

Table of Contents**Board Committees**

The Board has established an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee. The Audit, Compensation and Corporate Governance and Nominating Committees are composed entirely of independent directors as defined under the New York Stock Exchange Listed Company Manual and the Company's Corporate Governance Guidelines. The charters of each committee are available on the Company's website at www.flotekind.com.

The following table shows the committees on which each director serves. C indicates that the director serves as the chair of the committee

Director	Audit	Governance and Nominating	Compensation
John S. Reiland	C	X	X
Richard O. Wilson	X	X	C
Kenneth T. Hern	X	C	X

Audit Committee

The Audit Committee held 25 meetings in 2009. The Audit Committee's primary functions are to:

Appoint, determine funding for, oversee and replace (subject to stockholder ratification, if applicable) a firm of independent auditors to audit our financial statements;

Pre-approve all audit and non-audit services provided by our independent auditors;

Evaluate the qualifications, performance and independence of our independent auditors, and ensure the rotation of the lead (or concurring) audit partner;

Obtain and review a report of our independent auditors, at least annually, regarding compliance with their internal quality-control procedures;

Discuss with our independent auditors the overall scope and plans for their respective audits;

Discuss with management and our independent auditors the adequacy and effectiveness of the Company's accounting and financial controls;

Meet with our independent auditors to discuss the conduct and findings of their respective audits;

Meet and review with management and our independent auditors the Company's financial statements and the associated disclosures to be included in its quarterly and annual reports to be filed with the SEC;

Discuss with management and our independent auditors significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements;

Discuss periodically with management the Company's plan with regard to issuing earnings press releases, and providing financial information and earnings guidance to analysts and rating agencies;

Review any disclosures by the Company's officers and other employees regarding significant deficiencies in the design and operation of the Company's internal controls; and

Establish procedures for receiving and responding to concerns regarding accounting, internal accounting controls and auditing matters. Each member of the Audit Committee, as of the date of this Proxy Statement (Messrs. Reiland, Hern and Wilson) is financially literate and has accounting or financial management expertise. Messrs. Reiland and Hern are audit committee financial experts as defined in Item 407 (d)(5) of Regulation S-K under the Exchange Act, rule 10A-3 under the Exchange Act, the New York Stock Exchange Listed Company Manual and the Company's Corporate Governance Principles.

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The Board has adopted a charter for the Audit Committee, a copy of which is available on our website (www.flotekind.com) and in print to any stockholder who requests it.

Compensation Committee

The Compensation Committee (the "Compensation Committee") held six meetings in 2009. The Compensation Committee's primary functions are to:

Establish, in conjunction with executive management, the overall compensation strategy of the Company and review such strategy at least annually for alignment with the Company's business strategy and with similar programs offered by the Company's competitors;

Adopt, amend or terminate corporate incentive programs (including short-term and long-term incentive and other similar programs), including establishment of performance standards, and validate the funding of such programs relative to previously established performance standards;

Review the Company's employee benefit plans, including retirement and savings plans, and either recommend plan changes to the Board or amend such plans as appropriate;

Review at least annually the Company's investment strategies around and performance of the Company's 401(k) plans;

Review and approve corporate goals and objectives relevant to compensation of the Chief Executive Officer, Chief Operating Officer, President and any other member of the senior management team reporting directly to the Chief Executive Officer (collectively the "Group") and evaluate the Group's performance in light of such goals and objectives;

Determine and approve the Group's salary, bonuses and other compensation, either as a Compensation Committee or together with the other independent directors (as directed by the Board);

Grant to the Group options to acquire shares of the stock of the Company or such other equity awards pursuant to such terms as are deemed appropriate by the Compensation Committee;

Award stock options, stock awards, stock appreciation rights and other awards to employees of the Company pursuant to any plan approved by the Board which by its terms provides for administration by the Compensation Committee;

Make recommendations to the Board with respect to the compensation of Board members;

Approve, in advance, the total remuneration and employment agreements for the Company's executive officers (as that term is defined under the Securities Exchange Act of 1934, as amended) and review, in the aggregate, the compensation, benefit and equity-based plans, programs and payments for all other employees;

Recommend changes to all equity-based plans to the Board as appropriate, subject to shareholder approval as required; and

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Produce a transparent and comprehensive Compensation Discussion and Analysis and a Compensation Committee Report on executive officer compensation to be included in the Proxy Statement.

The Interim President attends meetings of the Compensation Committee. The Interim President's feedback about each officer's performance is essential in the Compensation Committee's determination of the officer's salary and target incentive compensation determinations.

The Board has adopted a charter for the Compensation Committee, a copy of which is available on our website (www.flotekind.com) and in print to any stockholder who requests it.

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Compensation Risk

The role of the Compensation Committee in risk oversight includes review of risks arising from our compensation policies, practices and programs as well as the mitigating controls, to determine whether any such risks are material to us. The Compensation Committee plans to review these matters during 2010 to ensure that the Company's compensation programs that management and the Board have implemented appropriately balance risk and the achievement of long-term and short-term goals, and that they are not reasonably likely to have a material adverse effect on our business.

Compensation Committee Consultant

In 2009, the Compensation Committee directly retained a nationally-recognized firm, BDO, as its outside compensation consultant, to provide advice and recommendations on the amount and form of executive and director compensation. In 2009, the aggregate fees billed by BDO were \$23,325. In a separate, one-time engagement, BDO provided risk advisory services for which the Company paid \$150,000.

Corporate Governance and Nominating Committee.

The Corporate Governance and Nominating Committee met eight times in 2009. The Corporate Governance and Nominating Committee's primary functions are to:

Review, at least annually, the structure of the Board to assure that the proper skills and experience are represented on the Board;

Recommend to the full Board candidates to fill vacancies on the Board as they occur;

Recommend, prior to each annual stockholder meeting, a slate of nominees for election or reelection as directors by the stockholders at the annual meeting;

Identify individuals qualified to serve as potential Board members, consistent with criteria approved by the Board;

Select, evaluate, retain, and where appropriate, terminate any search firm to be used to identify qualified director candidates;

Evaluate current directors for re-nomination to the Board or re-appointment to any Board committees, and assess the performance of such directors;

Periodically review the composition of the Board and its committees in light of the current challenges and needs of the Board, the Company and each committee of the Board, and determine whether it may be appropriate to add or remove individuals;

Consider rotation of the Chairmen and members of the committees of the Board;

Consider candidates to serve as Board members that are submitted by shareholders of the Company;

Periodically make recommendations to the Board with respect to the size of the Board;

Review criteria and policies relating to director independence, service and tenure;

Recommend to the Board the membership of the Audit and Compensation Committees, including their Chairpersons;

Periodically make recommendations to the Board with respect to the compensation of Board members;

Make recommendations to the Board regarding corporate governance matters and practices, including formulating and periodically reviewing Corporate Governance Guidelines to be adopted by the Board;

Develop and recommend to the Board the Company's Corporate Governance Guidelines and at least annually, review and reassess the adequacy of such Corporate Governance Guidelines and recommend any proposed changes to the Board;

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Be responsible for any tasks assigned to the Corporate Governance and Nominating Committee in the Company's Corporate Governance Guidelines;

Oversee compliance with the Company's Corporate Governance Guidelines and report on such compliance to the Board;

Review and consider any requests for waivers of the Company's Corporate Governance Guidelines or Code of Business Conduct and Ethics for the Company's directors, executive officers and other senior financial officers, and make a recommendation to the Board with respect to such request for a waiver;

Review potential conflicts of interest involving directors and determine whether such director or directors may vote on any issue as to which there may be a conflict;

Review all related party transactions and determine whether such transactions are appropriate for the Company to undertake and, if so, approve such transactions;

Review periodically with the Company's counsel, in light of changing conditions, new legislation and other developments, the Company's Code of Business Conduct and Ethics and make recommendations to the Board for such changes as the Corporate Governance and Nominating Committee shall deem appropriate;

Develop and implement continuing education programs for all directors, including orientation and training programs for new directors; and

Establish the evaluation criteria, and implement and oversee the process for the performance evaluations of management, the results of which are reported to the full Board.

When identifying and evaluating candidates, the Corporate Governance and Nominating Committee first determines whether there are any evolving needs of the Board that require an expert in a particular field. The Corporate Governance and Nominating Committee may retain a third-party search firm to assist the Committee in locating qualified candidates that meet the needs of the Board at that time. Generally, a retained search firm would provide information on a number of candidates, which the Corporate Governance and Nominating Committee would discuss. The Corporate Governance and Nominating Committee chairman and some or all of the members of the Corporate Governance and Nominating Committee will interview potential candidates that meet the needs of the Board, have the qualifications, and meet the independence standards required by the New York Stock Exchange and as set forth by the Company's Corporate Governance Guidelines, and the Corporate Governance and Nominating Committee will recommend the nomination of candidates to the Board. Director nominees may be identified by the Corporate Governance and Nominating Committee through current board members, officers, stockholders or other persons. Any stockholder desiring to submit a nomination to the Board should send the recommendation in writing, together with appropriate background and contact information, to the Secretary of the Company at the address of the Company's principal executive offices. The Board has not established formal minimum qualifications for a director nominee and evaluates any nominee, including those recommended by stockholders, on a case-by-case basis. The Board has adopted a charter for the Corporate Governance and Nominating Committee, a copy of which is available on our website (www.flotekind.com) and in print to any stockholder who requests it.

Mr. McGuire, a director nominee approved by the Corporate Governance and Nominating Committee for inclusion in the form of proxy, was recommended by a non-management director.

Code of Business Conduct and Ethics

The Code of Business Conduct and Ethics of the Company applies to our directors, executive officers and to all other employees and is available on our website (www.flotekind.com) and in print to any stockholder who requests it.

Compensation Committee Interlocks and Insider Participation

Messrs. Chisholm, Hern, Reiland and Wilson (and Messrs. Pittman and Stewart while they were directors) served on the Compensation Committee during 2009. In August 2009, Mr. Chisholm began serving as Interim

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President of the Company and no longer served on the Compensation Committee. Messrs. Stewart and Pittman resigned from the Company's Board in November 2009. No current member of the Compensation Committee is a current or former officer or employee of ours or had any relationship requiring disclosure under applicable SEC rules. Additionally, none of our executive officers served as a director or member of the compensation committee of another entity, one of whose executive officers served as a director or member of our Compensation Committee.

Transactions With Related Persons

The Company recognizes that related person transactions can present potential or actual conflicts of interest and it is the Company's preference that related person transactions are avoided as a general matter. However, the Company also recognizes that there are situations, including certain transactions negotiated on an arm's length basis, where related person transactions may be in, or may not be inconsistent with, the best interests of the Company and its stockholders. Therefore, the Corporate Governance and Nominating Committee of the Board will review, ratify or approve, as necessary, any related person transaction prior to the transaction being entered into, or ratify any related person transaction that has not been previously approved, in which a director, executive officer, five percent owner or immediate family member of any such person has a material interest.

During 2009, the Company did not participate in any transactions in which any of the director nominees, executive officers, nor any of their immediate family members, had a direct or indirect material interest.

Board Leadership Structure

Prior to his resignation as Chief Executive Officer in August 2009, Mr. Dumas served as Chairman and Chief Executive Officer of the Company. Mr. Dumas will continue to serve as Chairman of the Board until the Annual Meeting on August 13, 2010, at which time it is expected that Mr. Chisholm, the Company's Interim President, will become Chairman of the Board. The Board believes that the Company's Interim President will be best situated to serve as Chairman because he is the director most familiar with the Company's business and industry, and most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy. Independent directors and management have different perspectives and roles in strategy development. The Company's independent directors bring experience, oversight and expertise from outside the company and industry, while the Interim President brings company-specific experience and expertise. The Board believes that the combined role of Chairman of the Board and Interim President will promote strategy development and execution, and facilitate information flow between management and the Board, which are essential to effective governance.

One of the key responsibilities of the Board is to develop strategic direction and hold management accountable for the execution of strategy once it is developed. The Board believes the combined role of Chairman and Interim President is consistent with the best interests of stockholders because it provides the appropriate balance between strategy development and independent oversight of management.

Section 16(a) Beneficial Ownership Reporting Compliance

Pursuant to Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act) and the rules issued thereunder, the Company's directors and executive officers are required to file with the SEC reports of ownership and changes in ownership of Common Stock. Copies of such forms are required to be filed with the Company. Based solely on its review of copies of such reports furnished to the Company, the Company believes that the directors and executive officers were in compliance with the filing requirements of Section 16(a) during the most recent fiscal year, except that (1) Mr. Neyman did not timely file two Form 4's reporting three transactions in 2009, (2) Mr. Dumas did not timely file four Form 4's in 2009, (3) Mr. Reeves did not timely file three Form 4's in 2009 and (4) Messrs. Hern and Reiland's Form 3's were not timely filed.

Table of Contents**EXECUTIVE OFFICERS**

The following table provides certain information with respect to the executive officers of the Company.

Name and Age	Positions	Position Held Since
John W. Chisholm (55)	Interim President	2009
Steven A. Reeves (59)	President Downhole Tool Division	2007
	Executive Vice President and Chief Operating Officer	2008
	Executive Vice President, Business Development and Special Projects	2009
Jesse E. Neyman (66)	Vice President of Business Development	2007
	Senior Vice President and Chief Financial Officer	2008
	Executive Vice President, Finance and Strategic Planning	2009

Biographical information on Mr. Chisholm is presented above under Election of Directors Nominees.

Steven A. Reeves served as Executive Vice President and Chief Operating Officer from May 2008 until October 29, 2009. Since October 29, 2009, Mr. Reeves serves as Executive Vice President, Business Development and Special Projects. Previously, Mr. Reeves served as President of Flotek's Downhole Tool Division from January 2007, and had served as Vice President of Flotek's Turbeco Division from April 2005 until January 2007. Prior to joining Flotek, Mr. Reeves served in various positions over a 30 year career with Halliburton Energy Services, Inc., from which he retired in May 2002. Mr. Reeves' responsibilities ranged from field engineer, logging and perforating, to global operations manager for formation evaluation, overseeing Halliburton Energy Services' worldwide formation evaluation operations. Mr. Reeves spent his last two years with Halliburton Energy Services as general manager of Jet Research Center in Alvarado, Texas. JRC is the originator of the jet shaped charge for oil and gas formation stimulation and develops shaped charges for the oil and gas industry. Mr. Reeves holds a BS in Math with minors in Physics and Spanish from East Central University.

Jesse E. Jempy Neyman served as Senior Vice President and Chief Financial Officer from October 2008 until October 29, 2009. Since October 29, 2009 Mr. Neyman serves as Executive Vice President, Finance and Strategic Planning. Mr. Neyman joined Flotek in January 2007 as Vice President of Business Development. Prior to joining Flotek, Mr. Neyman served as President and Chief Executive Officer of Enron Wind Management from January 2006 until December 2006. Mr. Neyman was responsible for managing and liquidating the global wind business operations of Enron Corp. and its affiliates. From January 1992 to August 2001, Mr. Neyman served as Director and Vice President of Enron Producer Finance, an affiliate of Enron, providing risk capital to the oil and gas sector. He utilized this experience when he served as Vice President, Principal Investments of Enron from August 2001 to December 2006. As Vice President, he was responsible for managing financial investment portfolios of Enron and its affiliates. Mr. Neyman is a graduate of the United States Air Force Academy and served as an Air Force officer from June 1967 until December 1976. After being honorably discharged from the U.S. Air Force, Mr. Neyman was a commercial banker specializing in oil and gas lending until joining Enron, except for a two-year period when he worked as an environmental consultant. He has a M.S. degree in Air Pollution Meteorology and Diffusion Theory from the University of Utah, an MBA from Southern Illinois University Edwardsville and a BS in International affairs from the USAF Academy.

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AUDIT COMMITTEE REPORT

The Audit Committee of the Board consists of three directors who are independent, as defined by the standards of the New York Stock Exchange and the rules of the Securities and Exchange Commission. Under the charter approved by the Board, the Committee assists the Board in overseeing matters relating to the accounting and financial reporting practices of the Company, the adequacy of its internal controls and the quality and integrity of its financial statements and is responsible for selecting and retaining the independent auditors. The Company's management is responsible for preparing the financial statements of the Company, and the independent auditors are responsible for auditing those financial statements. The Audit Committee's role under the charter is to oversee management. The Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the independent auditors' work. The Committee met 25 times during the year ended December 31, 2009.

The independent auditors provided the Committee with a written statement describing all the relationships between the auditors and the Company that might bear on the auditors' independence consistent with Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. The Committee also discussed with the auditors any relationships that may impact the independence of the auditors.

The Committee discussed and reviewed with the independent auditors all communications required to be discussed by standards of the Public Company Accounting Oversight Board, including those described in Statement of Auditing Standards No. 61, as amended, Communication with Audit Committees.

The Committee reviewed the Company's audited financial statements as of and for the year ended December 31, 2009, and discussed them with management and the independent auditors. Based on such review and discussions, the Committee recommended to the Board that the Company's audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2009, for filing with the Securities and Exchange Commission.

John S. Reiland, Chairman

Kenneth T. Hern

Richard O. Wilson

July 13, 2010

This report of the Audit Committee shall not be deemed soliciting material, or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C or to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically request that the information be treated as soliciting material or specifically incorporate it by reference into a document filed under the Securities Act of 1933 (the Securities Act) or the Exchange Act. Further, this report will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act except to the extent that we specifically incorporate this information by reference.

Table of Contents**COMPENSATION DISCUSSION AND ANALYSIS**

The following discussion of executive compensation contains descriptions of various employment-related agreements and employee benefit plans. These descriptions are qualified in their entirety by reference to the full text of the referenced agreements and plans, which have been filed by us as exhibits to our reports on Forms 10-K, 10-Q and 8-K filed with the U.S. Securities and Exchange Commission.

Introduction

The following discussion provides an overview of the Compensation Committee of our Board of Directors (the Compensation Committee), the background and objectives of our compensation programs for our current and former senior management, and the material elements of the compensation of each of the executive officers identified in the following table, to which we refer as our named executive officers:

Name	Title
John W. Chisholm (1)	Interim President (principal executive officer)
Jerry D. Dumas, Sr. (2)	Chairman of the Board and Former President and Chief Executive Officer
Steven A. Reeves (3)	Executive Vice President, Business Development & Special Projects
Jesse E. Neyman (4)	Executive Vice President, Finance and Strategic Planning (principal financial officer)
Scott Stanton (5)	Former Executive Vice President, Accounting and Reporting

- (1) Mr. Chisholm was appointed Interim President under the terms of a Service Agreement effective on August 11, 2009.
- (2) Mr. Dumas served as President and Chief Executive Officer until August 11, 2009, and will serve as Chairman of the Board until the Company's annual meeting of stockholders in June 2010.
- (3) Mr. Reeves was appointed Executive Vice President of Business Development & Special Projects effective October 29, 2009. Prior to this appointment, Mr. Reeves served as Executive Vice President and Chief Operating Officer.
- (4) Mr. Neyman was appointed Executive Vice President of Finance and Strategic Planning effective October 29, 2009. He is currently designated as the Company's Principal Financial Officer and Principal Accounting Officer. Prior to this appointment, Mr. Neyman served as Senior Vice President and Chief Financial Officer.
- (5) Mr. Stanton served as Vice President Accounting and Reporting from May 6, 2009 and Chief Accounting Officer from September 1, 2009 until his resignation on November 5, 2009. He also served as Executive Vice President, Accounting and Reporting from October 29, 2009 until his resignation on November 5, 2009.

Compensation Committee

The Compensation Committee (the Compensation Committee) of our Board of Directors has overall responsibility for the approval, evaluation and oversight of our compensation plans, policies and programs. The primary purpose of the Compensation Committee is to assist the Board of Directors in fulfilling its responsibilities relating to the compensation of our named executive officers and directors. The primary responsibilities of the Compensation Committee include, (i) annually reviewing our general compensation policies with respect to named executive officers and directors, (ii) annually reviewing and approving the corporate goals and objectives relevant to the compensation of our executive officers, evaluating our officers' performance in light of these goals, and approving or recommending to the Board compensation levels based on

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these evaluations, and (iii) producing a committee report on executive compensation as required by the SEC to be included or incorporated by reference in our proxy statement or other applicable SEC filings, and (iv) recommending the compensation program applicable to our outside directors.

Our Board appoints our Compensation Committee members and Chairman annually, and these appointees continue to be members until their successors are elected and qualified or until their earlier resignation or removal. Any member of our Compensation Committee may be removed, with or without cause, by our Board. Our Board of Directors appoints members to the Compensation Committee considering criteria such as experience in compensation matters, familiarity with our management and other key personnel, understanding of public company compensation issues, time availability necessary to fulfill committee responsibilities and independence and other regulatory requirements. No member of our Compensation Committee participates in any of our employee compensation programs, and our Board has determined that none of our Compensation Committee members has any material business relationship with us. Currently, the members of the Compensation Committee are Richard O. Wilson, who serves as Chairman, Kenneth T. Hern and John S. Reiland.

Each member of the Compensation Committee is considered to be (1) independent under the currently applicable listing standards of the NYSE; (2) a non-employee director with the meaning of Rule 16b-3 under the Securities and Exchange Act of 1934, as amended; and (3) an outside director within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Compensation Committee on occasion meets with our Interim President and other executives to obtain recommendations with respect to our compensation programs, practices and packages for executives, other employees and directors. Although management makes recommendations to the Compensation Committee on executive compensation, the Compensation Committee is not bound by and does not always accept management's recommendations. The Compensation Committee has historically sought input from an independent compensation consultant prior to making any final determinations. Our Interim President attends some of the Compensation Committee meetings, but the Compensation Committee also regularly holds executive sessions not attended by members of management or non-independent directors.

The Compensation Committee's function is more fully described in its charter. The Compensation Committee will continue to review and assess the adequacy of the charter and recommend any proposed changes to the Board for approval on an annual basis. The Compensation Committee works with our Interim President to establish an agenda for each meeting of the Compensation Committee and to prepare meeting materials. Our Interim President, outside corporate counsel, and other members of our management and outside advisors may be invited to attend all or a portion of a Compensation Committee meeting depending on the nature of the matters to be discussed. Only members of the Compensation Committee vote on items before the Compensation Committee; however, the Compensation Committee and Board often solicit the advice of our Interim President on compensation matters, the compensation of other senior management and the other named executive officers.

On at least an annual basis, the Compensation Committee or our full Board approves all compensation and equity awards to our named executive officers, the managers of our business segments and the Board. Further, the Compensation Committee approves grants for other employees of the Company from time to time.

Our Compensation Committee may retain, at our expense, independent compensation consultants in the consideration of executive compensation matters. The Compensation Committee meets with the compensation consultants, both in and outside of the presence of our management, to review findings and recommendations regarding executive compensation and considers those findings and recommendations in determining and making adjustments to our executive compensation program. For the year ended December 31, 2008, the Compensation Committee retained BDO Seidman LLP (referred to herein as the Compensation Consultant) to assist it in fulfilling its responsibilities as assigned by the Chairman of the Compensation Committee. Under the direction of the Chairman of the Compensation Committee, the Compensation Consultant provided information regarding compensation trends in the energy services industry, relative compensation for similarly-situated executive

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officers in the industry, the structure of our cash and equity incentive awards and the structure of the compensation program for outside directors. At the Compensation Committee's request, the Compensation Consultant worked with management to prepare materials for review by the Compensation Committee and made recommendations regarding the Compensation Committee's calendar.

In 2009 the aggregate fees billed by Compensation Consultant for compensation consulting services were \$23,325. In a separate one-time engagement, Compensation Consultant provided risk advisory services for which the Company paid \$150,000.

Compensation Philosophy

We operate in a very competitive environment. Our principal competitors are more established providers of services in our industry and, because of their size, generally have more significant resources than we do. In order to successfully compete in this environment, we must be able to attract and retain highly skilled employees with well-developed management, operational and marketing skills. The Company has been successful in developing and retaining a highly-qualified management team by offering compensation that is equitable, reasonably competitive with what we believe they might earn elsewhere based on our understanding of market practices, and closely tied to performance through our annual salary review process, our annual cash bonus plan, and grants of stock options and restricted stock from our Equity Incentive Plan or EIP.

In general, our executive compensation programs are designed to achieve the following objectives:

Attract and retain talented and experienced executives with the skills necessary to run and grow our existing business segments;

Attract and retain talented and experienced executives who can grow our Company through acquisitions and the successful integration of those acquisitions;

Align the interests of our executive officers with those of stockholders to increase the value of our enterprise;

Motivate and reward executives whose knowledge, skills and performance are critical to our success;

Demonstrate fairness among the executive management team by recognizing the contributions each executive makes to our success;

Provide accountability for the executives' performance to the Board;

Encourage a shared commitment among executives by coordinating Company and individual business unit targets and objectives; and

Encourage executives to meet non-financial goals that the Board believes are necessary for the success of the Company. As we endeavor to evaluate the adequacy of our overall executive compensation program, our Compensation Committee works with the Compensation Consultant to evaluate and compare certain elements of total compensation against a group of similar publicly traded energy services companies (the Compensation Peer Group). We benchmark each element of compensation (base salary, cash bonus incentive compensation and equity compensation), and decisions are made in the benchmarking against total compensation. The Compensation Consultant's benchmark information is used to establish ranges for total compensation and the Company endeavors to establish each executive officer's total compensation package at a level below the 75th percentile of the Compensation Peer Group.

We would prefer to define the market for our executive talent using a sizeable group of companies that are comparable in both size and line of business to us. However, there are not sufficient companies compare to us in size and line of business to comprise such a peer group. Therefore, as we evaluate the adequacy of our compensation programs, the Compensation Committee considers data in regard to our Compensation Peer Group.

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and data from published survey sources as well as information from our directors, management and our Compensation Consultant based on their collective understanding of industry practices. The companies that comprised our Compensation Peer Group in 2009 included the following:

Allis-Chalmers Energy, Inc.

Basic Energy Services, Inc.

Bolt Technology Corporation

Carbo Ceramics, Inc.

CE Franklin, LTD.

Lufkin Industries, Inc.

Matrix Service Company

Natco Group, Inc.

Newpark Resources, Inc.

T-3 Energy Services, Inc.

Tesco Corporation

The Compensation Committee intends to continually monitor the composition of the Compensation Peer Group to assure that it continues to provide a useful representation of the market for leadership talent in which the Company competes.

Executive Officer Compensation

Principal Elements of Compensation of Our Named Executive Officers

Historically, the principal elements of the compensation package offered to our executive officers have consisted of:

Base salary;

Cash bonus incentive compensation under the terms of the Company's annual incentive plan; and

Equity compensation generally in the form of stock option or restricted stock grants under the terms of our 2005 and 2007 Long Term Incentive Plans.

Some, but not all of our named executive officers participate in certain perquisite programs as described later in this discussion and all of our named executive officers participate in group insurance programs and our 401(k) Plan on the same basis as all other employees of the company.

Allocation of Compensation among the Principal Components

The Committee has not established formulas for allocating compensation between compensation elements. Rather the Compensation Committee reviews compensation structures at companies in our Compensation Peer Group, historical compensation for the participant, the participant's responsibilities, the participant's performance on both financial metrics and individual goals and objectives provided by the Committee, and the individual circumstances of its senior executives when determining the mix of base salary, cash bonus percentages, and annual equity awards to be paid or awarded to our senior executive officers. As a result, the Committee applies a different mix of base salary, cash bonus incentive compensation and equity compensation to different executive officer positions. However our historical practice has been to make executives overall compensation opportunity significantly contingent on operational performance.

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Base Salary

We review base salaries for our Interim President and other executives annually to determine if a change is appropriate. In reviewing base salaries, we consider several factors including a comparison to base salaries paid for comparable positions in our Compensation Peer Group, the relationship among base salaries paid with our Company and individual experience and performance. Our intent is to fix base salaries at levels that we believe are consistent with our program design objectives, including the ability to attract, motivate and retain highly talented individuals in a competitive environment. Compensation for base salaries is generally set at the 50th percentile range of our Compensation Peer Group. For fiscal 2009, each executive officer received a base salary that was at or below the 50th percentile.

Interim President

Mr. Chisholm was appointed Interim President in August 2009. Mr. Chisholm is compensated under a Services Agreement that pays two entities controlled by Mr. Chisholm (the Chisholm Companies) as an independent contractor a total of \$32,000 monthly as compensation for his services. In April 2010, we amended the services agreement, effective December 1, 2009, to increase these monthly payments to \$42,000 as compensation for his services.

Former President and Chief Executive Officer

Mr. Dumas resigned as President and Chief Executive Officer in August 2009. Mr. Dumas had served as Chairman and Chief Executive Officer since 1998. No changes were made to Mr. Dumas' compensation in 2009 prior to his resignation. Primarily based on market practice information provided by the Compensation Consultant, the Compensation Committee determined in August 2008 that Mr. Dumas' annual salary was in line with the salaries being paid to chief executive officers in our Compensation Peer Group. Mr. Dumas' annual salary for 2008, therefore, remained \$450,000, as previously established by the Committee in July 2007. Mr. Dumas' salary was increased to \$450,000 in July 2007 from \$360,000 as a result of increasing operational responsibilities stemming from multiple acquisitions, increasing shareholder relations obligations, the growth in market capitalization and a more competitive employment environment.

Executive Vice President, Business Development and Special Projects

Mr. Reeves was appointed Executive Vice President of Business Development and Special Projects on October 29, 2009. Mr. Reeves had served as Executive Vice President and Chief Operating Officer from May 2008 until his new appointment on October 29, 2009. No changes were made to Mr. Reeves' compensation in 2009. The Compensation Committee increased Mr. Reeves' salary in May 2008 from \$200,000 to \$275,000 in connection with his promotion to Executive Vice President and Chief Operating Officer. In setting the new base annual salary for Mr. Reeves, the Committee considered Mr. Reeves' new position and responsibilities, information regarding compensation practices among companies in the Compensation Peer Group and the salaries of other key employees of the Company along with an informal evaluation of Mr. Reeves' past performance and future potential.

Executive Vice President, Finance and Strategic Planning

Mr. Neyman was appointed Executive Vice President of Finance and Strategic Planning on October 29, 2009. Mr. Neyman had served as Senior Vice President and Chief Financial Officer from October 2008 until his new appointment on October 29, 2009, at which time his salary was increased to \$250,000. The amount of the increase was based on Mr. Neyman's new position and responsibilities, the Compensation Committee's understanding of market practices in regard to compensation of similar positions among companies of our size, Mr. Neyman's experience, his performance in previous roles with the Company and his key role in overseeing the Company's financial operations.

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Former Executive Vice President, Accounting and Reporting

Mr. Stanton served briefly in the role of Executive Vice President, Accounting and Reporting, and as principal accounting officer and principal financial officer of the Company. His salary was set at \$225,000 upon his appointment as Chief Accounting Officer in May 2009 and was not subsequently adjusted.

2010 Base Salaries

In regard to 2010 salaries of the named executive officers, the Compensation Committee has reviewed the current status of the salary amounts in regard to overall market competitiveness, internal equity, personal performance and the current operating environment. Based on this review, the Compensation Committee has decided to defer any decisions regarding adjustments to salaries for named executive officers.

Annual Bonus Compensation

Under the terms of the 2009 Management Incentive Plan (MIP), named executive officers and other leadership employees had the opportunity to earn annual cash incentives based on the achievement of Company performance objectives, operating unit performance objectives (applicable to Mr. Reeves and other leadership employees assigned to operating units) and individual objectives. For executive officers, 75% of MIP compensation was to be earned by the Company's performance on Company objectives including 2009 budget revenue, 2009 budget EBITDA, and 2009 budget fully diluted earnings per share (each equally weighted), and 25% was to be based on individual performance objectives.

For each goal, a threshold, target and challenge amount was defined. Performance below threshold on any measure resulted in no bonus amount contingent on that measure being paid. Performance at threshold resulted in 50% of the contingent amount being paid, while 100% and 120% of the contingent amounts were to be paid at target and challenge levels, respectively. Failure to achieve threshold on any one measure did not disqualify participants from earning bonuses based on performance on other measures.

The Company objectives were selected because, in the opinion of the Compensation Committee, success on these measures is vital to the ability of the Company to emerge successfully from one of the most difficult operating environments experienced in the energy services sector in decades. Because the operating environment in 2009 was expected to be so difficult, the Committee believed that the objectives would be difficult to achieve and considered target performance to be an extraordinary achievement.

The MIP provides that if the company's performance exceeds the challenge level or if performance does not meet threshold levels, the Interim President may recommend for Compensation Committee approval of discretionary awards to those executives and other employees whose efforts contributed to positive results or mitigated negative results.

Performance objectives were not met in fiscal 2009 and as a result, no bonus payments were made to executive officers in 2009 under the 2009 MIP.

Interim President

Mr. Chisholm was scheduled to receive total compensation of \$543,225 in 2009, comprised of equity compensation of \$282,475, payments for his services of \$174,200 pursuant to his services agreement with the Company and director fees received prior to his appointment as Interim President of the Company. Because the Company did not meet certain performance objectives in 2009, Mr. Chisholm did not receive a bonus.

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Former President and Chief Executive Officer

Mr. Dumas was scheduled to receive total compensation of \$1,193,366 in 2009, comprised of a base salary of \$467,907, a targeted bonus and equity compensation. As described above, the targeted bonus is based on certain financial targets, including pre-tax income, achievement of the Company's performance objectives and individual objectives. The Company did not meet its performance objectives in 2009 and as a result, Mr. Dumas did not receive a bonus. A 2008 discretionary bonus was approved by the Compensation Committee in December 2008. Mr. Dumas received Common Stock valued at \$100,000 in December 2009 related to this 2008 discretionary bonus.

Executive Vice President, Business Development and Special Projects

Mr. Reeves was scheduled to receive total compensation of \$755,791 in 2009, comprised of a base salary of \$331,549, a targeted bonus and equity compensation. As described above, the targeted bonus is based on certain financial targets, including pre-tax income, achievement of the Company's performance objectives and individual objectives. The Company did not meet its performance objectives in 2009 and as a result, Mr. Reeves did not receive a bonus. A 2008 discretionary bonus was approved by the Compensation Committee in December 2008. Mr. Reeves received Common Stock valued at \$50,000 in December 2009 related to this 2008 discretionary bonus.

Executive Vice President, Finance and Strategic Planning

Mr. Neyman was scheduled to receive total compensation of \$613,380 in 2009, comprised of a base salary of \$240,656, a targeted bonus and equity compensation. As described above, the targeted bonus is based on certain financial targets, including pre-tax income, achievement of the Company's performance objectives and individual objectives. The Company did not meet its performance objectives in 2009 and as a result, Mr. Neyman did not receive a bonus. A 2008 discretionary bonus was approved by the Compensation Committee in December 2008. Mr. Neyman received Common Stock valued at \$20,000 in December 2009 related to this 2008 discretionary bonus.

Former Executive Vice President, Accounting and Reporting

Mr. Stanton was scheduled to receive total compensation of \$289,274 in 2009, comprised of base salary of \$117,065, a targeted bonus and equity compensation. Mr. Stanton received a \$20,000 relocation allowance when he became an officer of the Company in 2009 and, as a result of his resignation from the Company at the end of 2009, he received no other amounts as bonus payments for 2009.

2010 Annual Bonus Compensation

In regard to 2010 bonuses for the named executive officers, the Compensation Committee has decided to defer any decisions regarding bonus payments or performance targets for named executive officers.

Equity Compensation

The historical practice of the Compensation Committee has been to grant restricted stock and/or options to attract, retain, motivate and reward employees and executive officers, and to encourage ownership in the Company. The grant value of awards is determined by the Compensation Committee based on its understanding of competitive practices, internal equity considerations, performance, and the potential of the employee. The Compensation Committee considers it important that the value inherent in the grant is sufficient to create a long-term incentive for the employee to remain with the Company and to focus on the strategic objectives that must be achieved in order to deliver an attractive return to stockholders.

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Through 2009, such grants have consisted of incentive stock options, non-qualified stock options and restricted stock. Generally, the Compensation Committee has granted awards of stock options to our executive officers upon their appointment as executive officers or in annual grants made at the end of a fiscal year or shortly thereafter. The equity grants typically have vested over three or four years. Grants made to executive officers are shown in the 2009 Grants of Plan-Based Awards table.

One-half of the value of the equity grants awarded in 2009 took the form of restricted stock and one-half of the award values were comprised of non-qualified stock options. The value attributed to restricted shares is based on the closing price of Flotek shares on the date of grant, while the value attributed to stock options is based on the Black-Scholes value of the options on the date of grant.

In a departure from past practice, the Committee decided that for 2009 shares would vest over four years but no performance conditions would be attached to the 2009 restricted stock grants. This decision was made because, in the Compensation Committee's opinion, the equity positions of named executive officers attained through prior awards have diminished in value to such a degree in the current operating environment that they do not currently represent a meaningful wealth accumulation opportunity and, thus, are of limited value in motivating performance on strategic goals or in retaining our named executive officers. Further, given the current operating environment, the Compensation Committee believes that it is difficult to set goals for a three-to-five year period.

The option portion of the 2009 equity grant also vests evenly over four years. Grants to Messrs. Dumas, Reeves and Neyman provide for accelerated vesting in the event of the recipient's death or a change in control of the Company as defined under potential payments upon Termination of Employment or Change in Control. Grants to all other employees provide for accelerated vesting in the event of the recipient's death.

On February 16, 2009, the Compensation Committee approved equity grants to named executive officers as follows: Mr. Dumas received 107,575 shares of restricted stock and options to purchase 200,000 shares of Common Stock at \$2.51 per share; Mr. Reeves received 43,828 shares of restricted stock and options to purchase 81,484 shares of Common Stock at \$2.51 per share; and Mr. Neyman received 31,876 shares of restricted stock and options to purchase 59,260 shares of Common Stock at \$2.51 per share. The equity compensation element of total compensation is established as a percentage of revenue, consistent with the 50% benchmark or below of the Compensation Peer Group. Retention was a key consideration for the February 16, 2009 equity grants and individual performance objectives were not considered in connection with such grants.

On April 27, 2009, the Compensation Committee approved the equity grant to Mr. Stanton of 5,556 shares of restricted stock and options to purchase 25,424 shares of Common Stock at \$2.16 per share.

On August 11, 2009, in connection to Mr. Neyman's employment contract (described below), Mr. Neyman received an equity grant of options to purchase 150,000 shares of Common Stock at \$2.30 per share.

On December 22, 2009, the Compensation Committee approved the equity grant to Mr. Chisholm of options to purchase 400,000 shares of Common Stock at \$1.02 per share.

All stock-based payments awarded by the Compensation Committee have been reflected in our consolidated financial statements based on the applicable accounting guidance in Accounting Standards Codification (ASC) Topic 718, *Compensation Stock Compensation*. Our long-term incentive plans permit equity grants in the form of stock options, restricted stock and certain other incentive awards. To date, we have only awarded stock options and restricted stock under our long-term incentive plans. Costs resulting from all stock-based payment transactions are recognized in the financial statements based on a fair value measurement method. We use the Black-Scholes option-pricing model to estimate the award's grant-date fair value, and recognize compensation expense on a straight-line basis over the vesting period.

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2010 Equity Compensation

In regard to 2010 equity compensation for the named executive officers, the Compensation Committee has decided to defer any decisions regarding equity compensation for named executive officers.

Employment and Separation Agreements

Jerry D. Dumas-Retirement Agreement

In 2009 Jerry D. Dumas, Sr., Chairman of the Board, Chief Executive Officer and President of the Company, informed the Company that he will be retiring from such positions. The Company entered into a Retirement Agreement with Mr. Dumas on August 11, 2009 which sets forth the terms pursuant to which Mr. Dumas will step down as an officer of the Company and assist in the transition of his duties to his successor.

Pursuant to this Retirement Agreement, the Company and Mr. Dumas have agreed that: (i) Mr. Dumas would remain as Chief Executive Officer and President of the Company until the earlier of the date of the election of his replacement or January 1, 2010, (ii) Mr. Dumas will remain as a director of the Company until the Company's 2010 annual stockholders' meeting, (iii) Mr. Dumas will remain as an employee of the Company through June 30, 2010, (iv) Mr. Dumas will agree to perform throughout the term of his employment such duties as shall be assigned to him by the Board, which duties will not exceed the scope of the responsibilities of the Chief Executive Officer or President of the Company, and (v) Mr. Dumas will agree to assist in the transition of his duties as the Chief Executive Officer and President of the Company to his successor for three months after any such successor is elected.

The Company has agreed pursuant to the Retirement Agreement to: (i) pay to Mr. Dumas his annual salary of \$450,000 through June 30, 2010, (ii) pay Mr. Dumas a one-time payment of \$225,000 on June 30, 2010, and (iii) accelerate the vesting of any of Mr. Dumas' unvested equity awards on June 30, 2010.

The Retirement Agreement provides generally for the release by Mr. Dumas and the Company of each other against all claims, known or unknown. The vesting of Mr. Dumas' equity awards and the payment of certain compensation to Mr. Dumas pursuant to the Retirement Agreement are contingent on his employment not being terminated for cause.

Jesse E. Neyman-Employment Agreement

On August 11, 2009, the Company and Mr. Neyman, entered into an Employment Agreement pursuant to which Mr. Neyman would serve as Chief Financial Officer of the Company.

The Employment Agreement (i) provides for a term of employment until the earlier of (1) Mr. Neyman's resignation with or without Good Reason (as defined in the Employment Agreement) or Mr. Neyman's death or disability or (2) termination by the Company with or without Cause (as defined in the Employment Agreement); (ii) provides that, upon termination of Mr. Neyman's employment by the Company without Cause or by Mr. Neyman for Good Reason and subject to the satisfaction of certain other specified conditions, including the execution of a release agreement, Mr. Neyman will be entitled to receive (1) a lump sum payment in an amount equal to one-half of the sum of his annual base salary and target bonus, payable at the end of the month following execution of a release agreement, (2) monthly payments in an amount equal to one-twelfth of the sum of his annual base salary and target bonus, payable for 13 months following execution of a release agreement, (3) a lump sum payment in an amount equal to five-twelfths of the sum of his annual base salary and target bonus, payable at the end of the fifteenth month following execution of a release agreement, and (4) coverage at the Company's expense under the employee health insurance plan for a period of 24 months following execution of a release agreement; and (iii) contains certain non-solicitation and non-compete restrictions for a period of 24 months following the date of termination of employment with the Company.

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Pursuant to the Employment Agreement, Mr. Neyman earns an annualized base salary of \$250,000. Additionally, Mr. Neyman will be entitled to a bonus payment of \$75,000 if he does not resign from his employment with the Company and has not been terminated by the Company for Cause prior to the earlier of the date of the appointment of a new chief executive officer on a basis which is not an interim basis or December 31, 2009. Furthermore, Mr. Neyman also received a grant of stock options for 150,000 shares that would vest over four years pursuant to the Company's Long Term Incentive Plan. Such awards will automatically vest upon a change of control of the Company. In addition to the foregoing, Mr. Neyman would be entitled to certain other perquisites, including annual bonuses in accordance with the Company's management incentive plan with a target bonus of \$125,000 for each of the 2009 and 2010 fiscal years and reimbursement for reasonable expenses.

John W. Chisholm-Services Agreement

In connection with, and effective upon, the announced retirement of Mr. Dumas, the Company elected John W. Chisholm as Interim President. Mr. Chisholm is currently a member of the Company's Board of Directors. In connection with providing his services as interim President during the Company's search for a new Chief Executive Officer, the Company and two companies controlled by Mr. Chisholm entered into a Service Agreement, dated as of August 11, 2009, pursuant to which such companies will provide the services of Mr. Chisholm to the Company as interim President. The agreement is terminable by either party upon 30 days' written notice, and will terminate immediately upon the Company's election of a new Chief Executive Officer. The agreement provided that the Company would pay an aggregate of \$32,000 per month as consideration for the provision of Mr. Chisholm's services. The agreement was amended in April 2010 to increase Mr. Chisholm's compensation to \$42,000 per month, effective December 1, 2009.

Scott Stanton-Employment Agreement

On September 11, 2009, Flotek Industries, Inc. (the "Company") and Scott Stanton, Chief Accounting Officer, entered into an Employment Agreement (the "Employment Agreement") pursuant to which Mr. Stanton will continue to serve as Chief Accounting Officer of the Company.

The Employment Agreement, effective September 1, 2009, provided for a term of employment until the earlier of (i) Mr. Stanton's resignation with or without Good Reason (as defined in the Employment Agreement) or Mr. Stanton's death or disability or (ii) termination by the Company with or without Cause (as defined in the Employment Agreement). Upon termination of Mr. Stanton's employment by the Company without Cause or by Mr. Stanton with Good Reason and subject to the satisfaction of certain other specified conditions, including the execution and effectiveness of a severance and release agreement, Mr. Stanton would be entitled to receive (i) his base salary payable in accordance with the Company's general payroll practices for a period of 12 months following the termination date (as adjusted from time to time, the "Severance Period"), (ii) coverage at the Company's expense under the employee health insurance plan for a period equal to the lesser of (A) the Severance Period or (B) the maximum time period permitted under COBRA, and (iii) the payment of the remaining amount of any deferred compensation pursuant to the Company's compensation deferral policy, payable in full within 10 days following the execution and delivery of a release agreement. The Employment Agreement also contained certain non-solicitation and non-compete restrictions for a period equal to the Severance Period.

Pursuant to the Employment Agreement, Mr. Stanton annualized base salary was \$225,000. During Mr. Stanton's employment with the Company, he was to be entitled to participate in all of the Company's employee benefit programs for which employees of the Company are generally eligible. In addition to the foregoing, Mr. Stanton would be entitled to certain other perquisites, including annual bonuses in accordance with the Company's management incentive plan, with a target bonus of \$67,500 for each of the 2009 and 2010 fiscal years, reimbursement for reasonable expenses and vacations as permitted by Company policy.

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Mr. Stanton was appointed the Company's principal financial officer on October 29, 2009 and resigned on November 5, 2009. No compensation was paid to Mr. Stanton in connection with his termination of employment from the Company. Mr. Stanton has claimed he is entitled to severance under the terms of his Employment Agreement with the Company. The Company does not believe Mr. Stanton is entitled to any severance and intends to vigorously defend these claims.

Equity Retention Grant

In February 2009, the Compensation Committee approved a retention grant of 60,000 shares of restricted stock to Mr. Reeves. The restricted stock grant vests over a five year period as follows: (i) 5,000 shares vest on the first anniversary of the grant; (ii) 5,000 shares vest on the second anniversary of the grant; (iii) 10,000 shares vest on the third anniversary of the grant; (iv) 20,000 shares vest on the fourth anniversary of the grant; and (v) 20,000 shares vest on the fifth anniversary of the grant. The purpose of the equity grant was to incentivize Mr. Reeves to remain in a long-term management role with the Company.

Other Benefits

We believe that establishing competitive benefit packages for our employees is an important factor in attracting and retaining highly qualified personnel. Executive officers are eligible to participate in all of our employee benefit plans, including medical, dental & vision care programs, Company-paid accidental death, dismemberment & life insurance, and Flotek's 401(k) plan, on the same basis as other employees. During the first quarter of 2009, we provided a matching contribution on employee contributions of up to 4% of eligible compensation subject to by statutory limits. Effective in April 2009 we suspended such matching contributions. Other than the 401(k) plan we do not offer pension or retirement benefits. Our international employees may have slightly different employee benefit plans than those we offer domestically, typically as a result of legal requirements of any specific country.

Perquisites

The perquisites received by each senior executive are determined by past practices. The specific perquisites available to some of our named executives include:

Messrs. Dumas and Reeves have the use of a Company-owned vehicle.

A country club membership in Mr. Dumas' name that is primarily used for marketing purposes by our operating units.

Tax and Accounting Implications

Deductibility of Executive Compensation

The Compensation Committee is aware of the provisions of Section 162(m) of the Internal Revenue Code which provides that the Company may not deduct for federal income tax purposes annual compensation in excess of \$1 million paid to certain employees. Performance-based compensation paid pursuant to shareholder-approved plans such as our 2007 Long-Term Incentive Plan is not subject to the deduction limit as long as such compensation is approved by outside directors within the meaning of Section 162(m) of the Code.

The Compensation Committee makes every reasonable effort to structure and administer executive compensation opportunities so that compensation will not be subject to the Section 162 (m) deduction limit. However, the Compensation Committee may from time to time approve payments that cannot be deducted in order to maintain flexibility in structuring appropriate compensation opportunities in the interest of shareholders.

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Accounting for Stock-Based Compensation

Flotek Industries accounts for stock-based payments in accordance with the requirements of Accounting Standards Codification (ASC) Topic 718. Under this accounting pronouncement, Flotek Industries is required to value unvested stock options granted under the fair value method and expense those amounts in the income statement over the stock option's remaining vesting period. Flotek Industries considers the expenses associated with the grant of options and other long-term incentive awards in granting such awards.

Section 409A

To the extent we permit executives to defer compensation or we commit to deliver compensation at a later date than when earned and vested, we make every attempt to meet the requirements of Section 409A of the Internal Revenue Code. Failure to satisfy the Section 409A requirements could subject the executives receiving deferred compensation to a 20% excise tax.

Compensation Committee Report

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussion, has recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Richard O. Wilson, Chairman

Kenneth T. Hern

John S. Reiland

April 30, 2010

Table of Contents**Summary Compensation Table**

The following table sets forth information regarding compensation earned in or with respect to our fiscal years 2009, 2008 and 2007 by:

each person who served as our principal executive officer in 2009, 2008 and 2007;

each person who served as our principal financial officer in 2009, 2008 and 2007;

our three most highly compensated executive officers, other than our chief executive officer and chief financial officer.

Name and Principal Position	Year	Restricted Stock Options Compensation					Total (\$)
		Salary (\$)	Bonus (\$)(1)	Stock (\$)(2)	Options (\$)(3)	All Other (\$)(4)	
John W. Chisholm Interim President	2009			36,003	246,472	260,750	543,225
Jerry D. Dumas, Sr. Chairman of the Board and Former President and Chief Executive Officer	2009	467,907	169,481	270,006	270,170	15,802	1,193,366
	2008	450,000		1,292,439	304,450	57,923	2,104,812
	2007	395,192	230,704	636,250	434,973	62,802	1,759,412
Steven A. Reeves Executive Vice President, Business Development and Special Projects	2009	331,549	50,000	260,608	110,073	3,561	755,791
	2008	243,461		35,719	34,556	13,813	327,549
	2007	175,000	20,000	17,352	18,559	1,184	232,095
Jesse E. Neyman Executive Vice President, Finance and Strategic Planning	2009	240,656	20,000	80,009	270,561	2,154	613,380
	2008	180,961		10,692	9,273	8,081	209,007
	2007	149,038	14,307	3,473	3,712		170,530
Scott Stanton Former Executive Vice President, Accounting and Reporting May November 2009	2009	117,065	20,000	12,001	30,013	110,195	289,274

(*) The Company does not have any executive officers other than the Interim President; former Chief Executive Officer; Executive Vice President, Business Development and Special Projects; Executive Vice President, Finance and Strategic Planning; and former Executive Vice President, Accounting and Reporting.

(1) Messrs Dumas, Reeves and Neyman received 98,039, 49,020 and 19,608, shares of Common Stock, pursuant to our 2007 Long Term Incentive Plan, as a bonus for 2008 performance with a value of \$1.02/share. Mr. Stanton received a signing bonus.

(2) Represents the amounts recognized for financial reporting purposes in accordance with ASC Topic 718 for the year ended December 31, 2009, relat 9,293

Issuance of stock for financing cost	100,000	10	33,990	34,000
Net loss for the six months ended October 31, 2007			(728,505)	(728,505)
Balance October 31, 2007	11,566,856 \$	1,156 \$	7,980,007 \$	(1,450,815) \$ (7,985,266) \$ (1,454,918)

See notes to consolidated financial statements.

MILLER PETROLEUM, INC.
Consolidated Statements of Cash Flows
(UNAUDITED)

	For the Six Months Ended October 31, 2007	For the Six Months Ended October 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (728,505)	\$ (388,715)
Adjustments to Reconcile Net Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation, depletion and amortization	110,248	90,751
Gain on sale of equipment	(88,250)	
Issuance of stock for services	136,218	189,882
Issuance of stock for financing cost	34,000	
Warrant costs	9,293	39,000
Changes in Operating Assets and Liabilities:		
Accounts receivable	(67,932)	331,342
Unbilled service and drilling cost		76,944
Inventory	(35,925)	(17,696)
Loan fees		
Bank overdraft	(9,183)	(27,253)
Accounts payable	211,735	(123,499)
Accrued expenses	105,963	25,050
Net Cash Provided (Used) by Operating Activities	(322,338)	195,806
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Equipment		(122,924)
Sale of Equipment	103,381	
Option to Sell Gas Wells	50,000	
Net Cash Provided (Used) by Investing Activities	153,381	(122,924)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(152,798)	(17,310)
Proceeds from borrowing	321,755	20,076
Change in note receivable		35,100
Net Cash Provided by Financing Activities	168,957	37,866
NET INCREASE (DECREASE) IN CASH	0	110,748
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		0
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 0	\$ 110,748
CASH PAID FOR INTEREST INCOME TAXES	\$ 7,692	\$ 11,256

See notes to consolidated financial statements.

MILLER PETROLEUM, INC.
Notes to the Condensed Consolidated Financial Statements

(1) Interim Reports / Going Concern

The condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. However, in addition to successive losses for three years, declining revenues, a net loss of \$694,505 for the six months ended October 31, 2007, and net deficit of \$1,454,918 as of October 31, 2007, the Company was informed on August 30, 2006 by Wind City Oil & Gas, LLC ("Wind City") that it planned to exercise a put option as of September 30, 2006 to require the Company to redeem the stock in the amount of \$4,350,000. Management believes that the Company will therefore need total additional financing of approximately \$5,000,000 to effect the repurchase and continue to operate as planned during the six month period subsequent to October 31, 2007. These conditions, along with the Company being in default on the Delta note, raise substantial doubt about the Company's ability to continue as a going concern.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the Company's April 30, 2007 Annual Report on Form 10-KSB. The results of operations for the period ended October 31, 2007 are not necessarily indicative of operating results for the full year. In the opinion of management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation have been included.

(2) Participant Receivables and Related Party Receivables

Participant and related party receivables consist of receivables contractually due from our various joint venture partners in connection with routine exploration, betterment and maintenance activities. Our collateral for these receivables generally consists of lien rights over the related oil producing properties at both April 30, 2007 and October 31, 2007. Approximately \$195,000 included in the balance sheet among Related Party Receivables is due from Wind Mill Oil & Gas, LLC ("Wind Mill"), a related party. See Note 4 regarding the status of the Wind Mill Joint Venture.

(3) Long-Term Debt, Warrants, Loan Fees And Restricted Cash

The Company had the following debt obligations at October 31, 2007 and April 30, 2007

	October 31, 2007	April 30, 2007
<i>Notes Payable – Related Parties:</i>		
Note payable to Deloy Miller, secured by equipment and truck titles, interest at 10.750%, due April 18, 2008	\$ 80,201	\$
Note payable to Herman Gettlefinger, unsecured, dated February 21, 2007 bearing interest at 11% and due November 1, 2007. This note was paid December 14, 2007	42,000	42,000
Note payable to Sharon Miller, Unsecured, dated April 5, 2007 to May 17, 2007, bearing interest at 11%, due November 1, 2007. This Note was paid December 14, 2007	71,311	72,500
	193,512	114,500

Notes Payable – Other

Note payable to American Fidelity Bank, secured by a trust deed on property, bearing interest at prime, due in monthly payments of \$2,500, with the final payment due in August 2008	344,059	344,114
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MILLER PETROLEUM, INC.
Notes to the Condensed Consolidated Financial Statements

(3) Long-Term Debt, Warrants, Loan Fees And Restricted Cash (continued)

Note payable to Jade Special Strategy, LLC, unsecured, dated March 7, 2007, bearing interest based on a sliding scale approximating 120% and due January 4, 2008, and now accruing interest at 12%	110,000	110,000
Note payable to Jade Special Strategy, LLC, unsecured, dated April 17, 2007, bearing interest based on a sliding scale approximating 120% and due January 4, 2008, and now accruing interest at 12%	40,000	40,000
Note Payable to Jade Special Strategy, LLC, unsecured, dated August 2, 2007, bearing interest based on a sliding scale approximating 120% and due January 4, 2008, and now accruing interest at 12%	65,000	
Note payable to Petro Capital Securities, unsecured, dated May 24, 2007, bearing interest at 10% and due June 30, 2008	35,000	35,000
Note payable to Delta Producers, dated June 20, 2007, due July 20, 2007, with interest at 11%, the note is in default	25,000	
	619,059	529,114
Total Notes Payable	812,571	643,614
Less current maturities on related party notes payable	193,512	114,500
Less current maturities on other notes payable	295,000	202,234
Notes Payable – Long-term	324,059	326,880

(4) Wind Mill Oil & Gas, LLC Joint Venture

On December 23, 2005, the Company executed an limited liability company operating agreement with Wind City to form Wind Mill for the purpose of locating, producing and selling oil and gas. Wind City contributed \$10,000,000 of cash and received a 50.1% interest in Wind Mill. The Company contributed approximately 43,000 acres of oil and gas leases with a stated value of \$3,000,000 and a cost basis of \$801,319, and received a 49.9% interest in Wind Mill.

Under the Wind Mill agreement, the Company is reimbursed for administrative salaries and receives revenue for Wind Mill's use of the Company's production equipment and employees. Reimbursements and revenues from Wind Mill were as follows:

For the period from December 23, 2005 to April 30, 2006, the Company received salary reimbursements of \$276,491 and drilling and service revenue of \$153,096. From May 1, 2006 to April 30, 2007, the Company received \$353,640 of salary reimbursements and drilling and service revenue of \$534,944. From May 1, 2007 to October 31, 2007, the Company received no salary reimbursements or service and drilling revenue.

Under the Wind Mill agreement, Wind City is to be allocated all of the initial losses until its capital account is reduced to zero, and then will be allocated all initial profits until the profits are equal to the initial losses allocated.

The Wind Mill agreement contains a provision to unwind Wind Mill at the option of Wind City based on certain well results from the initial drilling. The Company believes that the four commercial wells drilled have exceeded the minimum requirements contained in the agreement.

In the event that the Wind Mill agreement becomes subject to the unwind provision, the Company has no responsibility for funding any losses and would receive a reassignment of the oil and gas leases transferred by the Company to Wind Mill.

MILLER PETROLEUM, INC.
Notes to the Condensed Consolidated Financial Statements

(4) Wind Mill Oil & Gas, LLC Joint Venture (continued)

As part of the Wind Mill agreement, Wind City purchased 2,900,000 shares of the Company's common stock for \$1.50 per share for a total of \$4,350,000. Part of the stock purchase agreement allowed Wind City to put the stock back to the Company if notification was given prior to September 30, 2006. The Company would then be required to repurchase the stock for the original selling price of \$4,350,000.

Litigation

Wind City sought to exercise its put with respect to the 2,900,000 shares of stock in August 2006. Reimbursement for certain salaried employees and revenue for providing labor and equipment was stopped by Wind City in September 2006. In October 2006, the Company advised Wind City that the stock repurchase request could not be effected because Wind City had not timely exercised the right under the terms of the contract. As a result, in November 2006, Wind City filed a lawsuit against the Company in the Southern District of New York. On December 21, 2006, the proceedings were stayed in order that the case be arbitrated in Tennessee to determine if the Wind Mill operating agreement was properly terminated, thus triggering the Company's obligation to repurchase the stock. The arbitration is scheduled to take place the week of January 14, 2008. The Company has filed a counterclaim against Wind City for damages in the amount of \$13,000,000 asserting that Wind City's attempt to terminate the Wind Mill operating agreement lacked a proper basis as well as for breach of contract. Wind City has likewise filed a claim against the Company for breach of contract, asserting damages in the amount of \$10,000,000.

Most of the depositions in the arbitration have been completed. Management is unable to assess the likelihood of an adverse outcome, or the likely range of damages that might be awarded in the event of an adverse verdict. Accordingly, no provision for loss, if any, is reflected in these consolidated financial statements.

(5) Stockholders' Equity

Penalty warrants for 120,000 common shares at a price of \$1.15 per share and a five-year term were granted during the six months ended October 31, 2007. The warrants were valued at \$0.

The Company presents "basic" earnings (loss) per share and, if applicable, "diluted" earnings per share pursuant to the provisions of Statement of Financial Accounting Standards No. 128. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, such as those issuable upon the exercise of stock options and warrants, were issued during the period. Since the Company had a net loss for the six month periods ended October 31, 2007 and 2006, and for the year ended April 30, 2007, the assumed effects from the exercise of outstanding options and warrants would have been anti-dilutive, and, therefore only basic earnings per share is presented.

(6) Recent Accounting Pronouncements

In June 2006, FIN 48, "Accounting for Uncertainty in Income Taxes," an interpretation of SFAS No. 109, clarified the accounting for uncertainties in income taxes recognized in an enterprise's financial statements. The Interpretation requires a determination whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority. If a tax position meets the more likely than not recognition criteria, FIN 48 requires the tax position be measured at the largest amount of benefit greater than fifty percent (50%) likely of being realized upon ultimate settlement. This accounting standard is effective for fiscal years beginning after December 15, 2006.

The effect of adopting FIN 48 did not have a material affect on the Company's financial position and results of operations.

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MILLER PETROLEUM, INC.
Notes to the Condensed Consolidated Financial Statements

(6) Recent Accounting Pronouncements (Continued)

In September 2006, the Staff of the SEC issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (“SAB No. 108”). SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of determining whether the current year’s financial statements are materially misstated. SAB 108 is effective for the Company’s fiscal year 2007 annual financial statements. The adoption of SAB 108 did not have an impact on our financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements” (“SFAS 157”). This standard defines fair value, establishes the framework for measuring fair value in accounting principles generally accepted in the United States and expands disclosure about fair value measurements. This pronouncement applies under other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating the requirements of SFAS No. 157 and have not yet determined the impact on our financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FAS 115 (“SFAS No.159”). SFAS No. 159 allows companies to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and will be applied prospectively. We are currently evaluating the impact of adopting SFAS No. 159 on our financial position, results of operations or cash flows.

In December 2006, the FASB issued FASB Staff Position No. EITF 00-19-2, Accounting for Registration Payment Arrangements, (“FSP No. EITF 00-19-2”), which addresses an issuer’s accounting for registration payment arrangements. FSP No. EITF 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies. The guidance in FSP No. EITF 00-19-2 amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, and FASB Interpretation No. 45, Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, to include scope exceptions for registration payment arrangements. FSP No. EITF 00-19-2 further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles (GAAP) without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. FSP No. EITF 00-19-2 shall be effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the date of issuance of FSP No. EITF 00-19-2. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of FSP No. EITF 00-19-2, this guidance shall be effective for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years. We adopted FSP No. EITF 00-19-2 effective January 1, 2007. We have not had any transactions subject to EITF 00-19-2 since its adoption, so there has been no material impact to the Company’s financial position, results of operations or cash flows.

MILLER PETROLEUM, INC.
Notes to the Condensed Consolidated Financial Statements

(7) Litigation / Going Concern

The outcome of our current litigation with Wind City could have a material adverse effect on our financial condition.

As previously discussed in Notes 1 and 4, Wind City has filed suit to force the exercise of the put provision of the stock purchase agreement. The Company does not believe the notice was properly given in accordance with the agreements; however, if the suit is successful and we are required to repurchase the shares, we would have a significant cash flow shortfall, which would require additional financing arrangements. There is no assurance that such financing could be obtained on favorable terms, or at all. In such event, our financial condition could be materially adversely affected and our ability to continue as a going concern could be jeopardized.

(8) Option to Sell Gas Wells

On September 14, 2007 we entered into an option to sell our interest in eight gas wells, a pipeline to service the wells and certain right-of-ways for a total consideration of \$584,000. We transferred approximately 320 acres of leases in this transaction. The buyers paid \$50,000 for the option in September 2007. The transaction closed December 14, 2007. We received approximately \$534,000 of additional proceeds at the closing.

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following discussion is intended to facilitate an understanding of our business and results of operations and includes forward-looking statements that reflect our plans, estimates and beliefs. It should be read in conjunction with our audited consolidated financial statements and the accompanying notes to the consolidated financial statements contained in our Form 10-KSB for the year ended April 30, 2007. Our actual results could differ materially from those discussed in these forward-looking statements.

Overview

We are actively engaged in the exploration, development, production and acquisition of crude oil and natural gas primarily in eastern Tennessee. In December 2005, we entered into an LLC agreement with Wind City Oil & Gas, LLC ("Wind City") to form Wind Mill Oil & Gas, LLC ("Wind Mill"). We have a 49.9% interest in Wind Mill and Wind City's interest is 50.1%. We contributed to Wind Mill approximately 43,000 acres, which we had held under lease in Tennessee for oil and gas exploration, development and exploitation of undeveloped wells. Wind City contributed \$10,000,000. Wind Mill only encompasses new drilling projects. We retain our working interest in the developed and producing wells located on contributed leases. We also retained all additional producing properties. Under certain conditions, the agreement allows for the contributed acreage to return to us upon dissolution of Wind Mill. Relative to the development of wells by Wind Mill, we received reimbursement for certain salaried employees and revenue for providing labor and equipment. Including the leases that were contributed to Wind Mill, we have approximately 50,000 acres under lease. About 90% of these leases are held by production.

A stock purchase agreement was entered into with Wind City in December 2005, pursuant to which Wind City purchased 2,900,000 shares of our stock at \$1.50 per share or a total of \$4,350,000.00 subject to a put option pursuant to which, in the event of a timely termination of the operating agreement in accordance with the terms thereof, Wind City would have the right to put the stock back to us at the same price per share. The agreement contained a

conditional 30-day notice prior to exercising such put option.

Wind City sought to exercise the put in August, 2006. Reimbursement for certain salaried employees and revenue for providing labor and equipment was stopped by Wind City in September 2006. In October 2006, we advised Wind City that the put could not be effected because Wind City had not timely exercised the right under the terms of the operating agreement. As a result, in November 2006, Wind City filed a lawsuit against the us in the Southern District of New York. On December 21, 2006, the proceedings were stayed in order that the case be arbitrated in Tennessee to determine if the Wind Mill operating agreement was properly terminated, thus triggering our obligation to repurchase the stock. The arbitration is scheduled to take place the week of January 14, 2008. We have filed a counterclaim against Wind City for damages in the amount of \$13,000,000 asserting that Wind City's attempt to terminate the Wind Mill operating agreement lacked a proper basis as well as for breach of contract. Wind City has likewise filed a claim against us for breach of contract, asserting damages in the amount of \$10,000,000.

Indicative of these proceedings, we recognize a continued opportunity to fully develop the mentioned properties. We have greatly benefited from drilling in Wind Mill for the continued development of producing properties and discovery of the Koppers South gas field.

Liquidity and Capital Resources

Cash used by operating activities was \$322,338 for the six months ended October 31, 2007, a reduction of \$518,144 from cash provided by operating activities for the six months ended October 31, 2006 of \$195,806. Our principal source of liquidity has been oil and gas revenues, loans from related parties and directors, private placement transactions of our common stock, and participation with investors in various oil and gas wells.

The funds from the sale of our common stock to Wind Mill were used to pay off \$4,150,000 of loans and to provide some working capital. Wind City also contributed \$10,000,000 to Wind Mill and we contributed oil and gas leases as part of the Wind Mill agreement. For the six months ended October 31, 2006, we received \$136,276 of administrative salary reimbursements and revenue of \$350,492 for various labor, parts and use of equipment. For the six months ended October 31, 2007, we received no salary reimbursements or reimbursements for equipment, parts and labor.

Our long-term cash flows are subject to a number of variables including the level of production and prices as well as various economic conditions that have historically affected the oil and gas business. A material drop in oil and gas prices or a reduction in production and reserves would reduce our ability to fund capital expenditures, reduce debt, meet financial obligations and remain profitable. We operate in an environment with numerous financial and operating risks, including, but not limited to, the inherent risks of the search for, development and production of oil and gas, the ability to buy properties and sell production at prices which provide an attractive return and the highly competitive nature of the industry. Our ability to expand our reserve base is, in part, dependent on obtaining sufficient capital through internal cash flow or the issuance of debt or equity securities. We are presently seeking substantial financing to settle the Wind City matter, but there can be no assurance that we will be successful in raising this financing.

Results of Operations

Three Months Ended October 31, 2007 compared to Three Months Ended October 31, 2006

	For the Three Months Ended October 31		Increase / (Decrease) 2006 to 2007
	2007	2006	
Revenues			
Oil and gas revenue	\$ 174,264	\$ 128,683	\$ 45,581
Service and drilling revenue	100,240	252,957	(152,717)
Total Revenue	274,504	381,640	(107,136)
Costs And Expenses			
Cost of oil and gas revenue	19,169	14,155	5,014
Cost of service and drilling revenue	68,519	220,013	(151,494)
Selling, general and administrative	330,319	334,857	(4,538)
Depreciation, Depletion and amortization	58,379	48,473	9,906
Total Costs and Expenses	476,386	617,498	(141,112)
Income (Loss) From Operations	(201,882)	(235,858)	33,976
Other Income (Expense)			
Interest income	623	234	389
Gain on sale of equipment	88,250	0	88,250
Interest expense	(60,779)	(6,894)	(53,885)
Loan fees and warrants	(43,293)	(15,000)	(28,293)
Total Other Income (Expense)	(15,199)	(21,660)	6,461
Net Income (Loss)	\$ (217,081)	\$ (257,518)	\$ 40,437

Revenue

Oil and gas revenue was \$174,264 for the three months ended October 31, 2007 as compared to \$128,683 for the three months ended October 31, 2006, an increase of \$45,581. This resulted from changing oil vendors in 2006 such that oil was not collected for approximately one month, requiring a cessation of production.

Service and drilling revenue was \$100,240 for the three months ended October 31, 2007 as compared to \$252,957 for the three months ended October 31, 2006, a decrease of \$152,717. This resulted from a decrease in drilling activity due to the litigation with Wind City.

Cost and Expense

The cost of oil and gas revenue was \$19,169 for the three months ended October 31, 2007 as compared to \$14,155 for the three months ended October 31, 2006, an increase of \$5,014. This resulted from the cost associated with increased production.

The cost of service and drilling revenue was \$68,519 for the three months ended October 31, 2007 as compared to \$220,013 for the three months ended October 31, 2006, a decrease of \$151,494. This was due to the decrease in drilling activities due to the litigation with Wind City.

Selling, general and administrative expense was \$330,319 for the three months ended October 31, 2007 as compared to \$334,857 for the three months ended October 31, 2006, a decrease of \$4,538. This resulted from a decrease in consulting, legal and professional fees.

Depreciation, depletion and amortization was \$58,379 for the three months ended October 31, 2007 as compared to \$48,473 for the three months ended October 31, 2006, an increase of \$9,906. This was due to an increase in oil and gas production.

Interest expense was \$60,779 for the three months ended October 31, 2007 as compared to \$6,894 for the three months ended October 31, 2006, an increase of \$53,885. This resulted from the interest on additional borrowings during 2007.

Gain on sale of equipment was \$88,250 for the three months ended October 31, 2007 as compared to \$0 for the three months ended October 31, 2006, an increase of \$88,250. This resulted from equipment sold during the current quarter.

Six Months Ended October 31, 2007 compared to Six Months Ended October 31, 2006:

	For the Six Months Ended October 31		Increase / (Decrease) 2006 to 2007
	2007	2006	
Revenues			
Oil and gas revenue	\$ 310,462	\$ 263,033	\$ 47,429
Service and drilling revenue	173,148	650,526	(477,378)
Total Revenue	483,610	913,559	(429,949)
Costs And Expenses			
Cost of oil and gas revenue	34,151	28,935	5,216
Cost of service and drilling revenue	239,706	574,522	(334,816)
Selling, general and administrative	778,248	558,096	220,152
Depreciation, Depletion and amortization	110,248	90,751	19,497
Total Costs and Expenses	1,162,353	1,252,304	(89,951)
Income (Loss) From Operations	(678,743)	(338,745)	(339,998)
Other Income (Expense)			
Interest income	712	286	426
Gain on sale of equipment	88,250	0	88,250
Interest expense	(95,431)	(11,256)	(84,175)
Loan fees and warrants	(43,293)	(39,000)	(4,293)
Total Other Income (Expense)	(49,762)	(49,970)	208
Net Income (Loss)	\$ (728,505)	\$ (388,715)	\$ (339,790)

Revenue

Oil and gas revenue was \$310,462 for the six months ended October 31, 2007 as compared to \$263,033 for the six months ended October 31, 2006, an increase of \$47,429. This resulted from changing oil vendors in 2006 such that oil was not collected for over one month, requiring a cessation of production.

Service and drilling revenue was \$173,148 for the six months ended October 31, 2007 as compared to \$650,526 for the six months ended October 31, 2006, a decrease of \$477,378. This resulted from a decrease in drilling activity, due to litigation with Wind City.

Cost and Expense

The cost of oil and gas revenue was \$34,151 for the six months ended October 31, 2007 as compared to \$28,935 for the six months ended October 31, 2006, an increase of \$5,216. This increase resulted from the cost associated with production.

The cost of service and drilling revenue was \$239,706 for the six months ended October 31, 2007 as compared to \$574,522 for the six months ended October 31, 2006, a decrease of \$334,816. This was due to the decrease in drilling activities due to the litigation with Wind City.

Selling, general and administrative expense was \$778,248 for the six months ended October 31, 2007 as compared to \$558,096 for the six months ended October 31, 2006, an increase of \$220,152. This is due to the termination of salary reimbursements by Wind City. For the period ended October 31, 2006, Wind Mill reimbursed the Company for \$353,640 of salaries.

Depreciation, depletion and amortization was \$110,248 for the six months ended October 31, 2007 as compared to \$90,751 for the six months ended October 31, 2006, an increase of \$19,497. This resulted from an increase in oil and gas production.

Interest expense was \$95,431 for the six months ended October 31, 2007 as compared to \$11,256 for the six months ended October 31, 2006, an increase of \$84,175. This resulted from the Wind City stock purchase and the payoff of most notes in 2006 and subsequent interest on borrowings in 2007.

Gain on sale of equipment was \$88,250 for the three months ended October 31, 2007 as compared to \$0 for the three months ended October 31, 2006, an increase of \$88,250. This resulted from equipment sold during the current quarter.

Item 3 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on the evaluation and communication from Rodefer Moss & Co, PLLC, our registered public accountants, to our Audit Committee in December 2007 that identified an issue with respect to our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are not effective.

The ineffective disclosure controls and procedures consist of deficiencies with respect to the authorization, recording, processing, summarizing and reporting of non-cash transactions. Specifically, certain stock issuances relating to outstanding notes payable were not properly recorded.

As a result of the identified ineffective disclosure controls and procedures, in preparing our financial statements for the quarter ended October 31, 2007, we performed additional analysis and other post-close procedures to ensure that such financial statements were stated fairly in all material respects in accordance with U.S. generally accepted accounting principles.

Changes in Internal Control over Financial Reporting

Given the identification of the above ineffective disclosure controls and procedures, we have also determined that a material weakness exists with respect to our internal control over financial reporting during the last fiscal quarter. Such material weakness relates to the improper recordation of certain stock issuances as described above and is likely to have materially adversely affected our internal control over financial reporting.

We have decided on a course of action that we anticipate will remediate this material weakness. This includes plans to insure that communication of the Company's non-cash transactions is made at the appropriate levels of management and that proper review of the summarization and processing of the Company's financial reporting occurs in a timely manner.

PART II – OTHER INFORMATION

Item 1 Legal Proceedings

As discussed in Note 4 to the financial statements in Part I, Item 1, and in Part I, Item 2, we are part to a material pending litigation with Wind City regarding Wind Mill. Reference is made to Note 4 of Part I, Item 1 and Part I, Item 2 for details of this litigation.

Item 6 Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MILLER PETROLEUM, INC.

Date: December 21, 2007

By: /s/ Deloy Miller
Deloy Miller
Chief Executive Officer, principal executive officer

Date: December 21, 2007

By: /s/ Lyle H. Cooper
Lyle H. Cooper
Chief Financial Officer, principal financial and
accounting officer