
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from _____ to _____
Commission File Number 1-13270

FLOTEK INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

90-0023731
(I.R.S. Employer
Identification No.)

2930 W. Sam Houston Parkway N. #300
Houston, TX
(Address of principal executive offices)

77043
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of August 5, 2011, there were 49,768,951 outstanding shares of Flotek Industries, Inc. common stock, \$0.0001 par value.

TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	1
	<u>Unaudited Condensed Consolidated Balance Sheets at June 30, 2011 and December 31, 2010</u>	1
	<u>Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010</u>	2
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010</u>	3
	<u>Unaudited Condensed Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2011</u>	4
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	30
Item 4.	<u>Controls and Procedures</u>	30

PART II—OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	31
Item 1A.	<u>Risk Factors</u>	31
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 3.	<u>Defaults Upon Senior Securities</u>	31
Item 4.	<u>(Removed and Reserved)</u>	31
Item 5.	<u>Other Information</u>	32
Item 6.	<u>Exhibits</u>	33
	<u>SIGNATURES</u>	34

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

**FLOTEK INDUSTRIES, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)**

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,137	\$ 19,863
Restricted cash	150	150
Accounts receivable, net of allowance for doubtful accounts of \$605 and \$262 at June 30, 2011 and December 31, 2010, respectively	38,358	27,310
Inventories, net	36,274	27,845
Deferred tax assets, net	667	575
Income tax receivable, net	635	2,973
Other current assets	2,847	1,041
Total current assets	94,068	79,757
Property and equipment, net	41,757	42,524
Goodwill	26,943	26,943
Deferred tax asset, net	65	117
Other intangible assets, net	30,850	35,466
TOTAL ASSETS	<u>\$ 193,683</u>	<u>\$ 184,807</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 14,774	\$ 13,520
Accrued liabilities	7,578	11,956
Interest payable	2,097	2,185
Current portion of long-term debt	510	6,454
Deferred tax liability, net	65	117
Total current liabilities	25,024	34,232
Convertible notes, net of discount	97,100	98,555
Long-term debt, less current portion	565	28,127
Warrant liability	15,386	26,193
Deferred tax liabilities, net	856	1,153
Total liabilities	<u>138,931</u>	<u>188,260</u>
Commitments and contingencies		
Stockholders' equity (deficit):		
Cumulative convertible preferred stock at accreted value; \$0.0001 par value; 100,000 shares authorized; zero and 11,205 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively; liquidation preference of \$ 1,000 per share	—	7,280
Common stock, \$0.0001 par value; 80,000,000 shares authorized; 51,553,306 shares issued and 49,176,177 shares outstanding at June 30, 2011; 36,753,891 shares issued and 35,327,893 shares outstanding at December 31, 2010	5	4
Additional paid-in capital	161,484	103,408
Accumulated other comprehensive income	72	97
Accumulated deficit	(105,718)	(113,350)
Treasury stock, at cost; 590,435 and 565,199 shares at June 30, 2011 and December 31, 2010, respectively	(1,091)	(892)
Total stockholders' equity (deficit)	<u>54,752</u>	<u>(3,453)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	<u>\$ 193,683</u>	<u>\$ 184,807</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

FLOTEK INDUSTRIES, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue	\$ 55,918	\$ 31,174	\$ 108,823	\$ 59,544
Cost of revenue	33,674	19,823	65,434	40,181
Gross margin	22,244	11,351	43,389	19,363
Expenses:				
Selling, general and administrative	12,729	13,218	23,069	23,408
Depreciation and amortization	1,015	1,182	2,037	2,376
Research and development	594	364	1,093	726
Total expenses	14,338	14,764	26,199	26,510
Income (loss) from operations	7,906	(3,413)	17,190	(7,147)
Other income (expense):				
Change in fair value of warrant liability	3,253	497	10,807	(1,316)
Interest expense	(4,489)	(4,945)	(9,346)	(9,163)
Other income (expense), net	3	(10)	20	52
Loss on extinguishment of debt	(3,225)	—	(3,225)	(995)
Other financing costs	—	—	—	(816)
Total other income (expense)	(4,458)	(4,458)	(1,744)	(12,238)
Income (loss) before income taxes	3,448	(7,871)	15,446	(19,385)
Income tax (expense) benefit	(1,322)	1,709	(2,946)	3,710
Net income (loss)	2,126	(6,162)	12,500	(15,675)
Accrued dividends and accretion of discount on preferred stock	—	(1,273)	(4,868)	(3,901)
Net income (loss) attributable to common stockholders	<u>\$ 2,126</u>	<u>\$ (7,435)</u>	<u>\$ 7,632</u>	<u>\$ (19,576)</u>
Basic and diluted earnings (loss) per common share:				
Basic earnings (loss) per common share	\$ 0.05	\$ (0.28)	\$ 0.19	\$ (0.84)
Diluted earnings (loss) per common share	\$ 0.04	\$ (0.28)	\$ 0.17	\$ (0.84)
Weighted average common shares used in computing basic and diluted earnings (loss) per common share:				
Weighted average common shares used in computing basic earnings (loss) per common share	44,749	26,445	41,180	23,323
Weighted average common shares used in computing diluted earnings (loss) per common share	47,433	26,445	45,523	23,323

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

FLOTEK INDUSTRIES, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	<u>Six Months Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net income (loss)	\$ 12,500	\$ (15,675)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Change in fair value of warrant liability	(10,807)	1,316
Depreciation and amortization	4,964	7,010
Amortization of deferred financing costs	1,987	1,516
Accretion of debt discount	2,657	2,451
Gain on sale of assets	(1,428)	(132)
Stock compensation expense	2,698	3,839
Deferred income tax benefit	(160)	(1,166)
Reduction in (excess) tax benefit related to share-based awards	(229)	1,685
Loss on extinguishment of debt	3,225	995
Change in current assets and liabilities:		
Accounts receivable	(11,048)	(5,364)
Inventories, net	(8,429)	420
Accrued liabilities	(1,152)	2,277
Interest payable	(30)	(691)
Accounts payable	1,254	222
Other current assets	(1,806)	(520)
Income tax receivable, net	2,414	(3,103)
Restricted cash	—	10
Net cash used in operating activities	<u>(3,390)</u>	<u>(4,910)</u>
Cash flows from investing activities:		
Capital expenditures	(3,657)	(2,183)
Proceeds from sale of assets	2,279	1,343
Purchase of patents and other intangibles	(220)	2
Net cash used in investing activities	<u>(1,598)</u>	<u>(838)</u>
Cash flows from financing activities:		
Proceeds from sale of common stock	29,438	—
Proceeds from exercise of warrants	4,581	69
Debt issuance costs	(1,000)	(1,742)
Repayments of indebtedness	(32,871)	(32,022)
(Reduction in) excess tax benefit related to share-based awards	229	(1,685)
Purchase of treasury stock	(199)	(86)
Proceeds from exercise of stock options	109	3
Proceeds from borrowings	—	40,000
Net cash provided by financing activities	<u>287</u>	<u>4,537</u>
Effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency	<u>(25)</u>	<u>(9)</u>
Net decrease in cash and cash equivalents	(4,726)	(1,220)
Cash and cash equivalents at the beginning of period	<u>19,863</u>	<u>6,485</u>
Cash and cash equivalents at the end of period	<u>\$ 15,137</u>	<u>\$ 5,265</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

FLOTEK INDUSTRIES, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Preferred Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares Issued	Value	Shares Issued	Value	Shares Issued	Cost				
Balance, December 31, 2010	<u>36,754</u>	<u>\$ 4</u>	<u>11</u>	<u>\$ 7,280</u>	<u>565</u>	<u>\$ (892)</u>	<u>\$103,408</u>	<u>\$ 97</u>	<u>\$(113,350)</u>	<u>\$(3,453)</u>
Net income	—	—	—	—	—	—	—	—	12,500	12,500
Foreign currency translation adjustment	—	—	—	—	—	—	—	(25)	—	(25)
Comprehensive income	—	—	—	—	—	—	—	—	—	12,475
Sale of common stock, net of issuance cost	3,665	—	—	—	—	—	29,438	—	—	29,438
Common stock issued in payment of term loan debt	171	—	—	—	—	—	1,398	—	—	1,398
Common stock issued in payment of convertible notes	559	—	—	—	—	—	5,165	—	—	5,165
Accretion of discount on preferred stock	—	—	—	3,925	—	—	—	—	(3,925)	—
Preferred stock dividends, net of forfeitures	—	—	—	—	—	—	—	—	(943)	(943)
Common stock issued in payment of preferred stock dividends	624	—	—	—	—	—	3,254	—	—	3,254
Stock warrants exercised	3,785	—	—	—	—	—	4,581	—	—	4,581
Stock options exercised	47	—	—	—	—	—	109	—	—	109
Restricted stock granted	1,076	—	—	—	—	—	—	—	—	—
Restricted stock forfeited	—	—	—	—	2	—	—	—	—	—
Treasury stock purchased	—	—	—	—	23	(199)	—	—	—	(199)
Excess tax benefit related to share-based awards	—	—	—	—	—	—	229	—	—	229
Stock compensation expense	—	—	—	—	—	—	2,698	—	—	2,698
Conversion of preferred stock into common stock	4,872	1	(11)	(11,205)	—	—	11,204	—	—	—
Balance, June 30, 2011	<u>51,553</u>	<u>\$ 5</u>	<u>—</u>	<u>\$ —</u>	<u>590</u>	<u>\$(1,091)</u>	<u>\$161,484</u>	<u>\$ 72</u>	<u>\$(105,718)</u>	<u>\$54,752</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

FLOTEK INDUSTRIES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Organization

Flotek Industries, Inc. (“Flotek” or the “Company”) is a diversified global developer and supplier of drilling and production related products and services. The Company’s strategic focus includes oilfield specialty chemicals and logistics, down-hole drilling tools and down-hole production tools used in the oil, gas and mining industries. The Company also provides automated material handling, loading facilities and blending capabilities for a variety of bulk materials. The Company’s products and services enable customers to drill wells more efficiently, increase production from existing wells and decrease well operating costs. Major customers include leading oilfield service providers, major and independent oil and gas exploration and production companies, and onshore and offshore drilling contractors.

The Company is headquartered in Houston, Texas, and maintains operational locations in Colorado, Louisiana, New Mexico, North Dakota, Oklahoma, Pennsylvania, Texas, Utah, Wyoming and the Netherlands. The Company actively markets products domestically and internationally in over 20 countries. The Company originally incorporated on May 17, 1985 under the laws of the Province of British Columbia. On October 23, 2001, the Company’s corporate domicile was transferred to the state of Delaware.

Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements (the “Financial Statements”) reflect all adjustments, in the opinion of management, necessary for fair presentation of the financial condition and results of operations for the periods presented. All such adjustments are normal and recurring in nature. The Financial Statements, including selected notes, have been prepared in accordance with applicable rules and regulations of the Securities and Exchange Commission (the “SEC”) regarding interim financial reporting and do not include all information and disclosures required by accounting principles generally accepted in the United States of America (“GAAP”) for comprehensive financial statement reporting. These interim Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (the “Annual Report”). A copy of the Annual Report is available on the SEC’s website, www.sec.gov, under the Company’s ticker symbol (“FTK”) or alternatively by visiting the Company’s website, www.flotekind.com. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the Financial Statements and accompanying notes. Actual results could differ materially from these estimates.

Note 2 — Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04, “*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*” to amend certain measurement and disclosure requirements related to fair value measurements. Additional disclosure requirements included quantitative information regarding unobservable inputs used in Level 3 measurements and disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy. The guidance is effective prospectively for interim and annual reporting periods beginning after December 15, 2011, with early adoption prohibited. The Company does not expect adoption of the guidance to have a material effect on the consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, “*Presentation of Comprehensive Income*” to provide revised guidance on the presentation of comprehensive income. The guidance requires presentation of components of net income and other comprehensive income within one continuous statement or in two separate, but consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of stockholders’ equity. The guidance does not require any change in the components recognized in net income or other comprehensive income in accordance with current GAAP. The guidance requires retrospective application and is effective for fiscal years and interim periods beginning after December 15, 2011. Early adoption is permitted. The Company does not expect adoption of the guidance to have a material effect on the consolidated financial statements.

Note 3 — Supplemental Cash Flow Information

Supplemental cash flow information (in thousands):

	<u>Six Months Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Supplemental non-cash investing and financing activities:		
Value of preferred stock exchanged in conversion to common stock	\$ 11,205	\$ —
Value of common stock issued in payment of preferred stock dividends	3,254	—
Value of common stock issued in payment of term loan debt	1,398	—
Value of common stock issued in payment of convertible notes	5,165	—
Property and equipment acquired through capital leases	365	112
Value of common stock issued in payment of debt issuance costs	—	4,357
Debt issuance cost expenditure included in accrued liabilities	—	2,000
Value of common stock issued in exchange for convertible notes	—	1,992
Reduction in convertible debt upon note exchange	—	1,996
Supplemental cash payment information:		
Interest paid	\$ 4,732	\$ 5,393
Income taxes paid, net	617	334

Note 4 — Product Revenue

The Company distinguishes revenue and cost of revenue between product sales, rental activity and service activity (in thousands):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenue:				
Product	\$ 37,040	\$ 19,119	\$ 72,012	\$ 37,413
Rental	14,823	9,577	28,958	17,206
Service	4,055	2,478	7,853	4,925
	<u>\$ 55,918</u>	<u>\$ 31,174</u>	<u>\$ 108,823</u>	<u>\$ 59,544</u>
Cost of revenue:				
Product	\$ 23,438	\$ 10,620	\$ 45,105	\$ 21,798
Rental	6,401	5,235	12,882	10,410
Service	2,355	1,638	4,520	3,338
Depreciation	1,480	2,330	2,927	4,635
	<u>\$ 33,674</u>	<u>\$ 19,823</u>	<u>\$ 65,434</u>	<u>\$ 40,181</u>

Note 5 — Inventory

Inventory includes (in thousands):

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Raw materials	\$ 13,250	\$ 10,920
Work-in-process	13	25
Finished goods	25,624	19,533
Gross inventory	38,887	30,478
Less reserve for excess and obsolete inventory	(2,613)	(2,633)
Inventory, net	<u>\$ 36,274</u>	<u>\$ 27,845</u>

Note 6 — Property and Equipment

Property and equipment includes (in thousands):

	June 30, 2011	December 31, 2010
Land	\$ 1,266	\$ 1,266
Buildings and leasehold improvements	18,358	18,609
Machinery, equipment and rental tools	43,261	40,247
Equipment in progress	674	1,271
Furniture and fixtures	1,288	1,278
Transportation equipment	4,162	3,648
Computer equipment	1,839	1,895
Property and equipment	70,848	68,214
Less accumulated depreciation	(29,091)	(25,690)
Property and equipment, net	<u>\$ 41,757</u>	<u>\$ 42,524</u>

Depreciation expense, inclusive of that captured in cost of revenue, totaled \$2.0 million and \$2.9 million for the second quarter of 2011 and 2010, respectively and totaled \$4.0 million and \$5.8 million for the June 30, 2011 and 2010 year to date periods, respectively.

Note 7 — Other Intangible Assets

Other intangible assets include (in thousands):

	June 30, 2011		December 31, 2010	
	Carrying Value	Accumulated Amortization	Carrying Value	Accumulated Amortization
Patents	\$ 6,330	\$ 3,088	\$ 6,330	\$ 2,932
Customer lists	28,545	9,868	28,544	9,193
Non-compete agreements	1,715	1,621	1,715	1,581
Brand names	6,199	1,099	6,199	945
Other	616	396	396	396
Total intangible assets acquired	43,405	16,072	43,184	15,047
Deferred financing costs	8,369	4,852	12,827	5,498
Total other intangible assets	<u>\$51,774</u>	<u>\$ 20,924</u>	<u>\$56,011</u>	<u>\$ 20,545</u>
Other intangible assets, net	<u>\$30,850</u>		<u>\$35,466</u>	

Intangible assets are amortized on a straight-line basis over two to 20 years. Amortization of intangible assets acquired totaled \$0.5 million and \$0.6 million during the second quarter of 2011 and 2010, respectively and \$1.0 million and \$1.2 million for the June 30, 2011 and 2010 year to date periods, respectively. Recurring amortization of deferred financing costs totaled \$1.0 million for both three months ended June 30, 2011 and 2010 and totaled \$2.0 million and \$1.5 million for the six months ended June 30, 2011 and 2010, respectively. A \$4.5 million reduction in deferred financing cost carrying value at June 30, 2011, as compared to December 31, 2010 was primarily attributable to repayment of the Company's outstanding term loan during the second quarter of 2011. See Note 8 – Convertible Notes and Long-Term Debt.

Note 8 — Convertible Notes and Long-Term Debt

Convertible notes and long-term debt include (in thousands):

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Convertible notes:		
Convertible senior unsecured notes (2008 Notes)	\$ 70,500	\$ 75,000
Convertible senior secured notes (2010 Notes)	36,004	36,004
Less discount on notes	(9,404)	(12,449)
Convertible senior notes, net of discount	<u>\$ 97,100</u>	<u>\$ 98,555</u>
Long-term debt:		
Term loan	\$ —	\$ 33,621
Capital lease obligations	1,075	960
Total long-term debt	<u>1,075</u>	<u>34,581</u>
Less current portion of long-term debt	(510)	(6,454)
Long-term debt, less current portion	<u>\$ 565</u>	<u>\$ 28,127</u>

Convertible Notes

Convertible notes consist of Convertible Senior Unsecured Notes (“2008 Notes”) and Convertible Senior Secured Notes (“2010 Notes”).

On February 14, 2008, the Company issued the 2008 Notes at par, in an aggregate principal amount of \$115 million. Net proceeds from issuance of the 2008 Notes totaled \$111.8 million. The 2008 Notes bear interest at 5.25% and mature on February 15, 2028.

On March 31, 2010, the Company executed an exchange agreement (the “Exchange Agreement”) with Whitebox Advisors, LLC, the administrative agent for a syndicate of lenders, to refinance the Company’s then existing term loan. The Exchange Agreement permitted each lender to exchange 2008 Notes, in proportion to the lender’s principal amount of participation in the refinanced term loan, for 2010 Notes and shares of the Company’s common stock. On March 31, 2010, in accordance with the terms of the Exchange Agreement, investors received, for each \$1,000 principal amount of 2008 Notes exchanged, (a) \$900 principal amount of 2010 Notes and (b) \$50 worth of shares of the Company’s common stock based on 95% of the volume-weighted average price of the common stock for the preceding ten trading days. The 2010 Notes carry the same maturity date, interest rate, conversion rights, conversion rate, redemption rights and guarantees as the 2008 Notes. The only difference in the terms of the notes is that the 2010 Notes are secured by a second priority lien on substantially all of the Company’s assets, while the 2008 Notes remain unsecured.

The Company exchanged \$40.0 million of 2008 Notes for aggregate consideration of \$36.0 million of 2010 Notes and \$2.0 million worth of shares of the Company’s common stock. On March 31, 2010, the Company issued 1,568,867 shares of common stock to satisfy the common stock component of the Exchange Agreement. The transaction was accounted for as an exchange of debt. Accordingly, no gain or loss was recognized and the difference between the debt exchanged and the net carrying value of the debt was recorded as a reduction of previously recorded debt discount. Third-party transaction costs of \$0.8 million incurred in conjunction with the Exchange Agreement were expensed as incurred.

The 2008 Notes may be settled in cash upon conversion. The Company accounted for both the liability and equity components of the 2008 Notes using the Company’s nonconvertible debt borrowing rate of 11.5%. The Company is using a five-year expected term for accretion of the associated debt discount. The five-year term represents the period from inception until contractual call/put options contained in the 2008 Notes become exercisable on February 15, 2013. The Company assumed an effective tax rate of 38.0%. At the date of issuance, the discount on the 2008 Notes was \$27.8 million, with an associated deferred tax liability of \$10.6 million. At March 31, 2010, the unamortized discount related to the proportionate amount of the 2008 Notes exchanged was allocated to the 2010 Notes and is accreted over the same period using the effective interest method at an assumed rate of 9.9%. Accretion of the discount is recognized as additional non-cash interest expense. Accretion of the discount totaled \$1.4 million and 1.2 million for the three months ended June 30, 2011 and 2010, respectively, and \$2.7 million and \$2.5 million for the six months ended June 30, 2011 and 2010, respectively.

Interest on the 2008 Notes and 2010 Notes accrues at 5.25% per annum and is payable semiannually in arrears on February 15 and August 15. The Company is obligated to pay contingent interest to holders of the 2008 Notes and 2010 Notes during any six-month period from an interest payment date to, but excluding, the following interest payment date, commencing with the six-month period beginning on February 15, 2013, if the trading price of a note for each of the five trading days ending on the third trading day

immediately preceding the first day of the relevant six-month period equals 120% or more of the principal amount of the note. Contingent interest payable per note, with respect to any such period, will be equal to 0.5% per annum of the average trading price of the applicable note for the five trading days referenced above.

The 2008 Notes and 2010 Notes mature on February 15, 2028. On or after February 15, 2013, the Company may redeem, for cash, all or a portion of the 2008 Notes and 2010 Notes at a price equal to 100% of the outstanding principal note amount, plus associated accrued and unpaid interest, including any contingent interest. Holders of either 2008 Notes or 2010 Notes can require the Company to purchase all, or a portion, of the holder's outstanding notes on each of February 15, 2013, February 15, 2018, and February 15, 2023.

If the Company engages in certain types of corporate transactions, note holders can require the Company to purchase all or a portion of the note holder's outstanding notes. Any repurchase of the 2008 Notes and 2010 Notes pursuant to the aforementioned provisions must be for a cash price equal to 100% of the principal amount of the notes to be purchased in addition to associated accrued and unpaid interest, including any contingent interest.

The 2008 Notes and 2010 Notes are convertible into shares of the Company's common stock at the option of the note holders, subject to certain contractual conditions. The conversion rate is equal to 43.9560 shares per \$1,000 principal note amount (equal to a conversion price of approximately \$22.75 per share), subject to adjustment, as contractually defined. Upon conversion, the Company may deliver, at the Company's option, either cash or shares of common stock or a combination of cash and shares of common stock.

In May 2011, note holders exchanged \$4.5 million of the 2008 Notes for 559,007 shares of the Company's common stock. Upon exchanged, the Company recognized a loss on the extinguishment of debt of \$1.1 million representing the difference between the reacquisition price of the debt over its net carrying amount which included unaccreted discount and unamortized deferred financing costs.

Term Loan

On March 31, 2010, the Company executed an Amended and Restated Credit Agreement (the "Senior Credit Facility" or "term loan") for a \$40.0 million term loan with Whitebox Advisors, LLC, the administrative agent for a syndicate of lenders.

The term loan indebtedness had a maturity date of November 1, 2012 and had scheduled quarterly principal payments of \$1,000,000. Interest was due quarterly and had an annualized interest rate of 12.5% when the principal balance exceeded \$30 million, 11.5% when the principal balance was \$20 million or more but not in excess of \$30 million, and 10.5% when the principal balance was less than \$20 million.

The Senior Credit Facility required additional mandatory principal payments of (a) 50% of EBITDA (earnings before interest, taxes, depreciation and amortization, and other contractually identified non-cash items) in excess of \$4.5 million in any fiscal quarter, (b) 50% of cash proceeds in excess of \$5 million and up to \$15 million for some contractually specified asset disposals, plus 75% of any cash proceeds in excess of \$15 million from certain specified types of asset disposals, (c) 75% of any Federal income tax refunds received, and (d) upon election by the lenders, of up to \$1 million of additional principal repayment on quarterly payment dates, when the volume-weighted average price of the Company's common stock price is equal to or greater than \$1.3419 per share, payable by issuance of common stock (based on 95% of the volume-weighted average price of the common stock for the preceding ten trading days).

On March 25, 2011, the Senior Credit Facility lenders elected to receive an additional principal payment of \$1,000,000 in shares of the Company's common stock payable on March 31, 2011. As a result, the Company issued the lenders 171,154 shares of the Company's common stock on March 31, 2011. The \$0.4 million difference between the fair value of the stock at the date of the election, March 25, 2011, and the \$1.0 million principal repayment was recorded as additional debt discount and was being amortized over the remaining period the term loan was expected to remain outstanding.

The Senior Credit Facility provided for a commitment fee of \$7.3 million. At closing on March 31, 2010, \$0.9 million was paid in cash and \$4.4 million was paid via the issuance of 3,431,133 shares of common stock. Deferred commitment fees of \$2.0 million were settled with an issuance of 611,108 shares of common stock and a \$0.3 million cash payment on September 30, 2010 and with a \$1.0 million cash payment on March 31, 2011. The Company allocated one-half of the commitment fees to the term loan and one-half to the Exchange Agreement. Commitment fees capitalized as deferred financing costs are amortized as additional interest expense over the periods the term loan and convertible debt are expected to remain outstanding.

Senior Credit Facility borrowings were secured by substantially all of the Company's present and future assets. The Senior Credit Facility did not contain a revolving line of credit facility nor require quarterly or annual financial covenant compliance; however, the Senior Credit Facility did restrict any Company payments of common stock dividends without the lender's prior written consent and limited the Company's amount of capital investment.

The term loan was repaid in June 2011. Upon repayment, the Company recognized a loss on extinguishment of debt of \$2.1 million resulting from the write-off of unamortized deferred financing costs and unaccreted discount related to the beneficial conversion option of the debt.

Guarantees of the Convertible Notes

The 2008 Notes and 2010 Notes are guaranteed by substantially all of the Company's wholly owned subsidiaries. Flotek Industries, Inc., the parent company, is a holding company with no independent assets or operations. The guarantees provided by the Company's subsidiaries are full and unconditional, and joint and several. Any subsidiaries of the Company that are not guarantors are deemed to be "minor" subsidiaries in accordance with SEC Regulation S-X, Rule 3-10, "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered." The agreements governing the Company's long-term indebtedness do not contain any significant restrictions on the ability of the Company, or any guarantor, to obtain funds from subsidiaries by dividend or loan.

Share Lending Agreement

Concurrent with the 2008 Notes offering, the Company entered into a share lending agreement (the "Share Lending Agreement") with Bear Stearns International Limited (the "Borrower"). The Borrower subsequently became an indirect, wholly owned subsidiary of JP Morgan Chase & Company. In accordance with the terms of the Share Lending Agreement, the Company loaned 3,800,000 shares of common stock (the "Borrowed Shares") to the Borrower for a period commencing February 11, 2008 and ending February 15, 2028. The Company may terminate the Share Lending Agreement earlier, upon written notice to the Borrower, if the principal balance of the 2008 Notes has been repaid or upon agreement with the Borrower. The Borrower is permitted to use the Borrowed Shares only for the purpose of directly or indirectly facilitating the sale of the 2008 Notes and for the establishment of hedge positions by holders of the 2008 Notes. The Company did not require collateral to mitigate any inherent or associated risk of the Share Lending Agreement.

In February 2008, the Borrower borrowed all 3,800,000 shares available under the Share Lending Agreement. The shares are subject to adjustments for stock dividends, stock splits or reverse stock splits. The Company did not receive any proceeds for the Borrowed Shares, but did receive a nominal loan fee of \$0.0001 for each share loaned. The Borrower retained all proceeds from the sale of Borrowed Shares pursuant to the Share Lending Agreement. Upon conversion, the number of Borrowed Shares proportionate to the conversion rate for the 2008 Notes must be remitted to the Company. Any borrowed shares returned to the Company cannot be borrowed.

Borrowed Shares are issued and outstanding for corporate law purposes; accordingly, holders of Borrowed Shares possess all of the rights of a holder of the Company's outstanding shares, including the right to vote the shares on all matters submitted to a vote of stockholders and the right to receive any dividends or other distributions declared or paid on outstanding shares of common stock. Under the Share Lending Agreement, the Borrower agreed to pay to the Company, within one business day after a payment date, an amount equal to any cash dividends that the Company paid on the Borrowed Shares, and to pay or deliver to the Company, upon termination of the loan of Borrowed Shares, any other distribution, in liquidation or otherwise, that the Company made on the Borrowed Shares.

To the extent the Borrowed Shares loaned under the Share Lending Agreement were not sold or returned to the Company, the Borrower agreed not to vote such Borrowed Shares of which it is the owner of record. The Borrower also agreed not to transfer or dispose of any Borrowed Shares, other than to Borrower's affiliates, unless such transfer or disposition was pursuant to a registration statement effective under the Securities Act. Investors that purchased shares from the Borrower, and all subsequent transferees of such purchasers, are entitled to the same voting rights, with respect to those shares, as any other holder of common stock.

Contractual undertakings of the Borrower have the effect of substantially eliminating the economic dilution that otherwise would result from the issuance of the Borrowed Shares. Further, all shares outstanding under the Share Lending Agreement are required to be returned to the Company at a future date. Consequently, shares of the Company's stock loaned under the Share Lending Agreement are not considered outstanding for the purpose of computing and reporting earnings per share.

The Company determined that the fair value of the share lending arrangement was \$0.5 million at the date of issuance. The fair value was recorded as debt issuance cost and is amortized as additional interest expense over the period from the date of issuance through February 15, 2013, the earliest put date of the related debt. At June 30, 2011, and December 31, 2010, unamortized debt issuance cost relating to the share lending arrangement totaled \$0.2 million. The Company estimates that this unamortized value approximates the fair value of the loaned shares outstanding at June 30, 2011, and December 31, 2010. The fair value of similar common shares not subject to the share lending arrangement based on the closing price of the Company's common stock on June 30, 2011, totaled \$32.4 million.

Capital Lease Obligations

The Company leases equipment and vehicles under capital leases. At June 30, 2011, the Company had \$1.1 million of capital lease obligations.

Note 9 — Fair Value Measurements

Fair value is the amount at a measurement date that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. The Company categorizes financial assets and liabilities into the three-tiered levels of the fair value hierarchy. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value and bases the categorization within the hierarchy on the lowest level of input that is available and significant to the fair value measurement.

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Observable inputs other than Level 1, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 – Significant unobservable inputs that are supported by little or no market activity or that are based upon the reporting entity's assumptions about the inputs.

Liabilities Measured at Fair Value on a Recurring Basis

Liabilities required to be measured at fair value on a recurring basis, including identification of the fair value hierarchy of the valuation techniques used by the Company to determine these fair values, are as follows (in thousands):

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Common stock warrants, June 30, 2011 (1)	\$ —	\$ —	\$15,386	\$15,386
Common stock warrants, December 31, 2010 (1)	\$ —	\$ —	\$26,193	\$26,193

(1) The fair value of common stock warrants is estimated using a Black-Scholes option-pricing model. See Note 12- Convertible Preferred Stock and Stock Warrants for additional information.

There were no significant transfers in or out of either Level 1 or Level 2 fair value measurements during the six months ended June 30, 2011. During the first half of 2011, \$10.8 million of non-cash gain was recognized as a fair value adjustment within Level 3 of the fair value measurement hierarchy. The change was primarily due to the exercise of 1.0 million Exercisable Warrants and 2.8 million Contingent Warrants (as defined below) at a fair value of \$7.39 and \$7.41 per warrant, respectively.

During the year ended December 31, 2010, \$21.5 million of non-cash fair value loss adjustment was recognized within Level 3 of the fair value measurement hierarchy. The fluctuation was primarily driven by an increase in the price and volatility of the Company's common stock partially offset by the conversion of 1.0 million Exercisable Warrants and 3.6 million Contingent Warrants at a weighted average fair value of \$1.30 and \$1.30 per warrant, respectively. The fair value per each Exercisable and Contingent Warrant for each period presented ranged from \$0.61 to \$4.46 (June 30, 2011 year to date) and from \$0.63 to \$4.48 (December 31, 2010 year to date) per warrant, respectively.

As of the periods presented there were no new issuances of warrants or transfers in or out of the Level 3 hierarchy.

Warrant Liability	Six Months Ended	Year Ended
	June 30, 2011	December 31, 2010
Balance, beginning of period	\$ 26,193	\$ 4,729
Fair value adjustments, net	(10,807)	21,464
Balance, end of period	\$ 15,386	\$ 26,193

Fair Value of Other Financial Instruments

The carrying amounts of certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate fair value due to the short-term nature of these accounts. The Company had no cash equivalents at June 30, 2011 or December 31, 2010.

The carrying value and estimated fair value of the Company's convertible notes and long-term debt were as follows (in thousands):

	June 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Convertible senior notes (2008 Notes) (1)	\$63,702	\$68,385	\$65,858	\$64,688
Convertible senior secured notes (2010 Notes) (1)	33,398	36,757	32,697	32,684
Term loan	—	—	33,621	33,875
Capital lease obligations	1,075	1,073	960	942

(1) The carrying values of the 2008 and 2010 Notes are representative of bifurcated debt components only, while the fair values are based on the market value of the respective notes, including convertible equity components.

The estimated fair value of the 2008 Notes is based on the quoted market price of the 2008 Notes. The estimated fair value of the 2010 Notes and term loan are based on rates available for instruments with similar risks and maturities. The fair value of capital lease obligations is based upon current lease rates adjusted for applicable risk premiums. The estimated fair value of the convertible notes and long-term debt are measured using Level 2 inputs.

Assets Measured at Fair Value on a Nonrecurring Basis

Non-financial assets, including property and equipment, goodwill and other intangible assets are measured at fair value on a non-recurring basis and are subject to annual and interim fair value adjustment. No fair value adjustment was deemed necessary for the three or six months ended June 30, 2011 or 2010.

Note 10 — Earnings (Loss) Per Share

Basic earnings (loss) per common share is calculated by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per common share is calculated by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding and potentially dilutive common stock equivalent shares outstanding, if the effect is dilutive.

In connection with the issuance of the 2008 Notes, the Company entered into a Share Lending Agreement for 3,800,000 shares of the Company's common stock (see Note 8 - Convertible Notes and Long Term Debt, "Share Lending Agreement"). Contractual undertakings of the Borrower have had the effect of substantially eliminating any economic dilution that otherwise would result from the issuance of the Borrowed Shares. All shares outstanding under the Share Lending Agreement are contractually obligated to be returned to the Company; accordingly, shares loaned under the Share Lending Agreement are not considered outstanding for the purpose of computing and reporting earnings (loss) per common share.

As of June 30, 2011, approximately 1.1 million stock options with an exercise price in excess of the average market price of the Company's common stock and outstanding convertible debt convertible into 4,681,490 shares of common stock were excluded from the calculation of diluted earnings per share, as inclusion was anti-dilutive. Basic and diluted earnings (loss) per common share are as follows (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income (loss) attributable to common stockholders - Basic	\$ 2,126	\$ (7,435)	\$ 7,632	\$ (19,576)
Plus convertible preferred stock dividends for assumed conversion of preferred stock	—	—	140	—
Net income (loss) attributable to common stockholders - Diluted	\$ 2,126	\$ (7,435)	\$ 7,772	\$ (19,576)
Weighted average common shares outstanding - Basic	44,749	26,445	41,180	23,323
Assumed conversions:				
Incremental common shares from warrants	1,900	—	2,724	—
Incremental common shares from stock options	784	—	743	—
Incremental common shares from convertible preferred stock before conversion	—	—	876	—
Weighted average common shares outstanding - Diluted	47,433	26,445	45,523	23,323
Basic earnings (loss) per common share	\$ 0.05	\$ (0.28)	\$ 0.19	\$ (0.84)
Diluted earnings (loss) per common share	\$ 0.04	\$ (0.28)	\$ 0.17	\$ (0.84)

Note 11 — Income Taxes

The Company is required to file separate U.S. Federal income tax returns for two U.S. tax filing groups: (1) Flotek Industries, Inc. and subsidiaries, and (2) Petrovalve, Inc. and subsidiaries. Taxable income of one group's return may not offset tax attributes, including net operating losses, of the other group's return.

The effective income tax rates for the second quarter of 2011 and 2010 were 38.3% and (21.7%), respectively, while the June 30, 2011 and 2010 year to date rates were 19.1% and (19.1%), respectively. Fluctuations in the effective tax rates are primarily attributable to the non-cash fluctuations in the fair value of the Company's warrant liability and in the deferred tax asset valuation allowances of one of the Company's filing jurisdictions.

At June 30, 2011 and December 31, 2010, the Company had an income tax receivable of \$3.0 million related to the anticipated carryback of the Company's 2010 net operating loss against previous tax payments. At June 30, 2011, the income tax receivable was partially offset by \$2.4 million, of income tax payable primarily related to taxes on current year taxable income.

Note 12 — Convertible Preferred Stock and Stock Warrants

On August 12, 2009, the Company sold 16,000 units (the "Units"), consisting of Series A cumulative convertible preferred stock and warrants, for \$1,000 per Unit, yielding aggregate gross proceeds of \$16.0 million. Net proceeds from issuance of the Units totaled \$14.8 million. Each Unit consisted of one share of cumulative convertible preferred stock ("Convertible Preferred Stock"), detachable warrants to purchase up to 155 shares of the Company's common stock at an exercise price of \$2.31 per share ("Exercisable Warrants") and detachable Contingent Warrants to purchase up to 500 shares of the Company's common stock at an exercise price of \$2.45 per share ("Contingent Warrants").

The gross proceeds from the issuance of the Units were allocated, at the date of the transaction, based upon the preferred stock and warrants relative fair values. The Company obtained third-party valuations to assist in quantifying the relative fair value of the Unit's debt and equity components. The fair value of the warrants was determined with the Black-Scholes option-pricing model presuming a five-year term, volatility of 54%, a risk-free rate of return of 2.7%, and an assumed dividend rate of zero. The fair value of the preferred stock component was determined based upon a valuation of the beneficial conversion right and host contract. The fair value of the beneficial conversion right was estimated based upon a Monte Carlo simulation of the Company's possible future stock price in order to assess the likelihood of conversion. Due to a lack of comparable companies with similar credit ratings, the value of the host contract was determined by applying a risk-adjusted rate of return to the annual dividend. At the date of the transaction, the Company recorded approximately 68% of the proceeds or \$10.8 million (net of the discount recognized from the allocation of proceeds to the detachable warrants) as preferred stock in stockholders' equity. The fair value of the detachable warrants of \$5.2 million was recorded as a warrant liability. The Company determined that the conversion option embedded within the preferred stock had intrinsic value and was beneficial to the holders of the preferred stock. Accordingly, \$5.2 million of intrinsic value was recorded as a beneficial conversion discount with an offset to additional paid-in capital at the date of the transaction. The preferred stock conversion period was estimated to be 36 months based on an evaluation of the conversion options.

Preferred Stock

Each share of Convertible Preferred Stock was convertible at any time, at the holder's option, into 434.782 shares of the Company's common stock. The conversion rate represented an equivalent conversion price of approximately \$2.30 per share of common stock.

Each share of Convertible Preferred Stock had a liquidation preference of \$1,000. Dividends accrued at a rate of 15% of the liquidation preference per year and accumulated if not paid quarterly. Dividends declared at the Company's election were subject to applicable debt covenant restrictions and were required to be paid in cash, common stock or a combination thereof. After February 11, 2010, the Company could automatically convert the preferred shares into common shares if the closing price of the common stock was equal to or greater than 150% of the then current conversion price for any 15 trading days during any 30 consecutive trading day period. If the Convertible Preferred Stock was automatically converted and the Company had not previously paid holders an amount equal to at least eight quarterly dividends, the Company was also obligated to pay an amount, in cash or common stock, equal to eight quarterly dividend payments less any dividends previously paid. No dividends were declared or paid on the Convertible Preferred Stock through December 31, 2010.

On January 6, 2011, the Company paid all accumulated and unpaid dividends on the outstanding shares of Convertible Preferred Stock. The payment, at an annual rate of 15% of the liquidation preference, covered the period from issuance, August 12, 2009, through December 31, 2010. In accordance with the Certificate of Designations, dividends were paid in shares of the Company's common stock. Dividends per share of \$208.33 were paid in shares of common stock valued at \$4.81, based upon the prior ten business day volume-weighted average price per share with fractional shares paid in cash.

On February 4, 2011, the Company exercised its contractual right to mandatorily convert all remaining outstanding shares of Convertible Preferred Stock into shares of common stock at the prevailing conversion rate of 434.782 shares of common stock for

each share of preferred stock. The Company issued 4,871,719 shares of common stock for preferred shares converted during 2011, including those mandatorily converted. In accordance with the applicable Certificate of Designations which governed the preferred stock, holders of preferred shares subject to mandatory conversion were entitled to no fewer than eight quarterly dividend payments. On February 4, 2011, dividends per share of \$91.67 were paid in shares of common stock valued at \$6.63, based upon the prior ten business day volume-weighted average price per share with fractional shares paid in cash.

Stock Warrants

Exercisable Warrants were exercisable upon issuance and expire August 12, 2014, if not exercised. Contingent Warrants became exercisable on November 9, 2009, and expire November 9, 2014, if not exercised. The Exercisable and Contingent Warrants contain anti-dilution price protection in the event the Company issues shares of common stock or securities exercisable for, or convertible into, common stock at a price per share less than the warrant's exercise price. Due to the anti-dilution price adjustment provision in the warrant agreements, the warrants were not considered to be equity and were recorded at fair value as a warrant liability when issued. The warrant liability is adjusted to fair value through the statement of operations at the end of each reporting period over the remaining life of the warrants.

In accordance with contractual anti-dilution price adjustment provisions, the Exercisable and Contingent Warrants were re-priced as a result of the payment of a portion of the initial and deferred commitment fees related to the Company's term loan with common stock on March 31, 2010, and September 30, 2010. At June 30, 2011, all outstanding warrants have an exercise price of \$1.21 per share. During the six months ended June 30, 2011, Exercisable and Contingent Warrants were exercised to purchase 3,785,750 shares of the Company's common stock for which the Company received cash proceeds of \$4.6 million. At June 30, 2011, Exercisable and Contingent Warrants to purchase up to 2,067,600 shares of common stock remain outstanding.

The Company uses the Black-Scholes option-pricing model to estimate the value of the warrant liability at the end of each reporting period. At June 30, 2011, inputs for the fair value calculation included the remaining terms of the Exercisable and Contingent Warrants, volatility of 71.5%, a risk-free rate of return of 0.8%, and an assumed dividend rate of zero.

Note 13 — Common Stock

The Company's certificate of incorporation, as amended November 9, 2009, authorizes the Company to issue up to 80 million shares of common stock, par value \$0.0001 per share, and 100,000 shares of one or more series of preferred stock, par value \$0.0001 per share.

A reconciliation of changes in shares of the Company's common stock issued during the six months ended June 30, 2011 is as follows:

Shares issued at December 31, 2010	36,753,891
Issued in sale of common stock	3,665,000
Issued upon conversion of preferred stock	4,871,719
Issued in payment of term loan principal	171,154
Issued in exchange of convertible notes	559,007
Issued upon exercise of warrants	3,785,750
Issued as dividend payments on preferred stock	624,171
Issued as restricted stock award grants	1,075,864
Issued upon exercise of stock options	46,750
Shares issued at June 30, 2011	<u>51,553,306</u>

Note 14 — Commitments and Contingencies

Litigation

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

Representation Agreements

Effective February 25, 2011, the Company entered into two separate representation agreements with Basin Supply Corporation ("Basin Supply"), a multinational, energy-focused supply chain management company, to market certain of the Company's specialty chemicals and down-hole drilling products and services in various international markets, including the Middle East, Africa, Latin America and the former Soviet Union. The agreements are effective through December 31, 2015, with each agreement providing a

retainer to Basin Supply in 2011 to assist with start-up and overhead costs. Basin Supply is also eligible to receive warrants to purchase Flotek common stock upon exceeding contractually defined annual base and “stretch” sales targets. The number of warrants that could be issued under the terms of the agreements is 200,000 per year during the first four years of the agreements.

Note 15 — Segment Information

Operating segments are defined as components of an enterprise for which separate financial information is available that is regularly evaluated by chief operating decision-makers to determine allocation of resources and assessment of performance.

The Company is comprised of three reportable segments; Chemicals, Drilling, and Artificial Lift:

- Chemicals consist of two business divisions: 1) Specialty Chemicals and 2) Logistics. Specialty Chemicals designs, develops, manufactures, packages and sells chemicals used by oilfield service companies in oil and natural gas well drilling, cementing, stimulation and production activities. The Logistics division manages automated handling, loading facilities, and blending capabilities of bulk materials for oilfield service companies.
- Drilling rents, inspects, manufactures and markets down-hole drilling equipment used in energy, mining, and water well and industrial drilling activities.
- Artificial Lift manufactures and markets artificial lift equipment, including the Petrovalve line of beam pump components, electric submersible pumps and gas separators, valves and services that support coal bed methane production activities.

The Company evaluates performance based upon several criteria. The primary financial measure is business segment income before taxes. Various functions, including certain sales and marketing activities and general and administrative activities are provided centrally by the corporate office. Costs associated with corporate office functions, other corporate income and expense items, as well as estimated income tax provisions (benefits), are not allocated to reportable segments. Intersegment revenue totaled approximately \$2.0 million, or 3.5%, of consolidated revenue and \$ 1.7 million, or 5.1%, of consolidated revenue for the three months ended June 30, 2011 and 2010, respectively and \$4.5 million, or 4.0% and \$3.6 million, or 5.7% of consolidated revenue for the six months ended June 30, 2011 and 2010, respectively.

Summarized financial information regarding reportable segments for the three months and six months ended June 30, 2011 and 2010 includes (in thousands):

	Chemicals	Drilling	Artificial Lift	Corporate and Other	Total
Three Months Ended June 30, 2011					
Net revenue from external customers	\$29,142	\$ 24,464	\$ 2,312	\$ —	\$ 55,918
Gross margin	11,011	10,808	425	—	22,244
Income (loss) from operations	8,266	5,905	(32)	(6,233)	7,906
Depreciation and amortization	390	1,981	52	73	2,496
Total assets	58,261	108,468	8,889	18,065	193,683
Capital expenditures	111	2,136	—	169	2,416
Three Months Ended June 30, 2010					
Net revenue from external customers	\$14,017	\$ 14,861	\$ 2,296	\$ —	\$ 31,174
Gross margin	6,403	4,215	733	—	11,351
Income (loss) from operations	3,984	(232)	379	(7,544)	(3,413)
Depreciation and amortization	432	2,946	54	80	3,512
Total assets	37,038	116,074	7,489	25,147	185,748
Capital expenditures	87	1,095	21	5	1,208

	Chemicals	Drilling	Artificial Lift	Corporate and Other	Total
Six Months Ended June 30, 2011					
Net revenue from external customers	\$56,068	\$ 47,105	\$ 5,650	\$ —	\$108,823
Gross margin	22,312	19,753	1,324	—	43,389
Income (loss) from operations	16,791	10,602	394	(10,597)	17,190
Depreciation and amortization	780	3,923	105	156	4,964
Total assets	58,261	108,468	8,889	18,065	193,683
Capital expenditures	161	2,955	11	530	3,657

Six Months Ended June 30, 2010					
Net revenue from external customers	\$27,129	\$ 27,772	\$ 4,643	\$ —	\$ 59,544
Gross margin	12,215	5,734	1,414	—	19,363
Income (loss) from operations	7,680	(3,401)	633	(12,059)	(7,147)
Depreciation and amortization	864	5,874	111	161	7,010
Total assets	37,038	116,074	7,489	25,147	185,748
Capital expenditures	126	2,023	29	5	2,183

One customer and its affiliates accounted for \$7.1 million and \$3.2 million of consolidated revenue for the three months ended June 30, 2011 and 2010, respectively and for \$14.3 million and \$6.9 million of consolidated revenue for the six month ended June 30, 2011 and 2010, respectively. Over 97.9% and 97.4% of aforementioned revenue for the three and six months periods ended June 30, 2011, and 97% respectively, and approximately 97% for the same periods in 2010 were attributable to sales within Chemicals.

Revenue by country is based upon the location of services provided and products sold. Revenue by geographic location is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
United States	\$ 50,775	\$ 26,714	\$ 95,850	\$ 50,968
Other Countries	5,143	4,460	12,973	8,576
Total	\$ 55,918	\$ 31,174	\$ 108,823	\$ 59,544

Long-lived assets held in countries other than the U.S. at June 30, 2011 represent 4.1%, or \$8.0 million, of total assets of \$193.7 million. Long-lived assets held in countries other than the U.S. at June 30, 2010 represented 1.6%, or \$2.9 million, of total assets of \$185.7 million.

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

Forward-Looking Statements

Certain statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations," including estimates, projections and statements related to Flotek Industries, Inc. ("Flotek" or the "Company") business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Forward-looking statements are not historical facts but rather represent the Company's current assumptions and projections regarding future events, many of which are inherently uncertain and outside of the Company's control. The forward-looking statements contained in this Quarterly Report on Form 10-Q (the "Quarterly Report") are based upon information available as of the date of this Quarterly Report. The forward-looking statements forecast future industry trends, economic conditions and performance or results of current and future initiatives, as well as the outcome of contingencies and other uncertainties that could have a significant impact on the Company's future business, operating results and liquidity. Forward-looking statements are generally identified by words such as "anticipate," "believe," "estimate," "continue," "intend," "expect," "plan," "forecast," "project" and similar expressions, or future-tense or conditional constructions such as "will," "may," "should," "could," etc. The Company cautions that these statements are merely predictions and not to be considered guarantees of future performance. Forward-looking statements are based upon current expectations and assumptions that are subject to risks and uncertainties that can cause actual results to differ materially from those projected, anticipated or implied.

A detailed discussion of potential risks and uncertainties that could cause actual results and events to differ materially from forward-looking statements is included in the section entitled "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (the "Annual Report") and in this Quarterly Report. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events, except as required by law.

Executive Summary

Flotek is a diversified, global, technology-driven, growth company that provides oilfield products, services and equipment to the oil, gas, and mining industries. The Company operates in select domestic and international markets, including the Gulf Coast, Southwest, Rocky Mountains, Northeastern and Mid-Continental regions of the U.S., Canada, Mexico, Central America, South America, Europe, Africa and Asia and markets products domestically and internationally in over 20 countries. Customers include major integrated oil and natural gas companies, independent oil and natural gas companies, pressure-pumping service companies, national and state-owned oil companies and international supply chain management companies.

The Company's ability to compete in the oilfield services market is dependent upon the Company's ability to differentiate and provide superior products and services while maintaining a competitive cost structure. Operations are reactive to fluctuations in natural gas and oil well drilling activity, well depth and drilling conditions, number of well completions and level of work-over activity in North America. North American drilling activity is aligned and responsive to the volatility of natural gas and crude oil prices as well as market expectations of future prices. In addition, the Company's results of operations are heavily dependent upon the sustainability of prices charged to customers, which is significantly impacted by drilling activity levels, availability of equipment and other resources, and competitive pricing pressures. These combined market factors contribute to potential volatility in the Company's revenue and profitability.

Comparison of Historic Market Conditions for the Three and Six Months Ended June 30, 2011 and 2010:

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2011	2010		2011	2010	
<i>Average Active Drilling Rigs</i>						
United States	1,835	1,513	21.3%	1,778	1,433	24.1%
Canada	184	176	4.5%	374	311	20.3%
Total North America	<u>2,019</u>	<u>1,689</u>	19.5%	<u>2,152</u>	<u>1,744</u>	23.4%
Vertical rigs (U.S.)	564	493	14.4%	539	478	12.8%
Horizontal rigs (U.S.)	1,043	790	32.0%	1,012	729	38.8%
Directional rigs (U.S.)	228	230	(0.9%)	227	226	0.4%
Total drilling type (U.S.)	<u>1,835</u>	<u>1,513</u>	21.3%	<u>1,778</u>	<u>1,433</u>	24.1%

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	2010	% Change	2011	2010	% Change
<i>Oil vs. Natural Gas Drilling Rigs</i>						
Oil	1,058	642	64.8%	1,128	668	68.9%
Natural Gas	961	1,047	(8.2%)	1,024	1,076	(4.9%)
Total North America	<u>2,019</u>	<u>1,689</u>	19.5%	<u>2,152</u>	<u>1,744</u>	23.4%
<i>Average Commodity Prices</i>						
West Texas Intermediate Crude Prices (\$ / barrel)	\$ 102.23	\$ 77.79	31.4%	\$ 97.88	\$ 78.22	25.1%
Natural Gas Prices (\$/Mmcf)	\$ 4.45	\$ 4.21	5.8%	\$ 4.26	\$ 4.51	(5.5%)

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

Crude oil prices remained comparatively stable throughout 2010. Beginning in the latter half of 2010 and continuing in the first half of 2011, however, oil prices have risen dramatically, primarily due to uncertainty regarding the geopolitical issues in North Africa and demand growth from developing countries such as China. In response, natural gas drilling activity continues to be curtailed. According to the International Energy Agency's (IEA) July 2011 "Oil Market Report," despite lower than expected demand levels during the first half of the year, the 2012 world petroleum demand for natural gas is forecast to increase 2% over 2011 levels. Though the global oil supply rose in the second quarter of 2011, continued political instability may lead to the further escalation of oil prices and subsequently lower demand, which could delay the current economic recovery. Despite this and the heightened geopolitical uncertainties, the Company believes that, over the long-term, any major macroeconomic disruptions will ultimately correct themselves as the underlying trends of significant demand growth within developing countries, smaller and more complex reservoir activity, high depletion rates, and the need for continual reserve replacement supports the Company's on-going strategic expansion initiatives into new international markets.

The shift in the latter part of 2010 from natural gas to oil and liquids-rich shale basins has resulted in increased product and service demands, including complex nanofluid chemistry and other technologically advanced products designed to promote efficiency within complex reservoir situations. This trend has continued throughout the first half of 2011, with horizontal oil-directed drilling activity being the fastest growing segment of the market. While total rig count increased modestly 5.6% from December 31, 2010 to June 30, 2011, horizontal-directed rig activity, representative of over 56.9% of total North American rigs, is approximately 66% higher than peak levels realized in 2008. These trends have led to increased demand and improved pricing for the majority of the Company's North American products and services. Increased economic activity, particularly in emerging Asia and Middle East markets, combined with market predictions of continued economic growth within North American markets remains supportive of a continued increase in demand for oil and natural gas. Spending by oil and natural gas exploration and production companies is heavily influenced by expectations of future supply and forecast demand for oil and natural gas products, as well as forecast costs to find, develop, and produce reserves. Changes in oil and natural gas exploration and production spending resulted in increased demand for the Company's products and services for the quarter and year to date periods ended June 30, 2011 as compared to the same periods of 2010.

Despite the shift from natural gas to liquids rich drilling, spending on natural gas-directed projects is supported by (1) hedges on prior period production transacted when futures prices were higher, (2) the need to drill and produce natural gas wells in order to hold leases acquired in earlier periods, (3) the influx of equity from companies interested in penetration and development of shale resource plays, and (4) associated production of natural gas liquids in certain basins.

The Company anticipates that economic conditions will continue to improve slightly throughout 2011 despite drilling activity uncertainty. The Company believes if current economic conditions continue, we could see more drilling activity uncertainty. Going forward the Company believes current activity will provide margin sustainability, while being cognizant of growing cost pressures which could mitigate margin improvements throughout the remainder of 2011.

As exploration and production companies' outlooks improve with favorable expectations of liquid-rich natural gas and oil prices, the Company remains optimistic that capital budgets for drilling and completion activities will continue to hold and possibly strengthen. Further, the Company expects rig count in oil basins to lead to margin relief on pricing, as evidenced by increased drilling activity in the Permian Basin.

The Company expects that North American gas market activity will remain relatively stable in unconventional plays such as Barnett, Marcellus and other basins that use the Company's drilling tools. Additionally, growing recognition of the beneficial use and corresponding increase in demand for the Company's environmentally friendly chemical additives is expected to continue. The Company's proprietary chemical additives enhance well performance when added to fracturing fluids in this type of drilling and further support the stability of product demand within the Company's chemical business. Product demand is also closely aligned to rig count activity, which is trending favorably. The Company intends to continue to pursue strategic international initiatives and opportunities through the second half of 2011.

The Company anticipates drilling and completion activity in the second half of 2011 will remain relatively stable as compared to levels realized in first half of 2011 and the second half of 2010. North American market conditions are forecast to improve slightly and pricing is expected to remain competitive throughout the remainder of 2011; however, growing cost pressures could moderate anticipated margin improvements.

The Company remains committed to the strategic initiative of adding drilling jars and shock subs to the Company's fleet in order to reduce dependency on sub-rental usage. The Company also remains committed to the pursuit of international market opportunities for the Teledrift division's MWD products in the second half of 2011.

Focus on research and development ("R&D") efforts within the chemicals business has ensured the Company's ability to be responsive to increased demand and growth in unconventional liquid rich and oil sand formation plays. As a result of success in unconventional areas such as the Marcellus Shale, Niobrara, and Eagle Ford, the Company expects to continue to experience increased demand and growth, particularly with the Company's complex nanofluid products. Further, the drilling business has adapted several designs in the Company's motor line of business in order to operate more successfully in areas such as the Haynesville, Barnett and Bakken. Improvements in operational efficiencies have allowed the Company's artificial lift business to expand the Company's customer base, even as depressed natural gas prices have negatively impacted coal bed methane drilling activity.

Capital expenditures were \$2.4 million and \$3.7 million for the quarter and year to date periods ended June 30, 2011 as compared to \$1.2 million and \$2.2 million for the same periods of 2010. Capital expenditures increased by \$1.5 million during the first half of 2011 as compared to the first half of 2010 in response to increased product and service demands. Replacement of worn essential equipment, previously delayed due to the global macroeconomic downturn, also contributed to the period over period increase. Management has forecast additional capital expenditures of \$5.1 million for the remainder of 2011; however, forecast expenditures could fluctuate dependent upon actual market demand and realized results of operations. The Company actively manages capital expenditures in order to be responsive to the market, take advantage of strategic opportunities and expand the Company's international presence.

The Company's business is comprised of three reportable segments: Chemicals and Logistics ("Chemicals"), Drilling Products ("Drilling") and Artificial Lift. The Chemicals and Drilling segments focus on serving the drilling-related needs of oil and gas companies, while the Chemicals and Artificial Lift segments focus on serving the production related needs of oil and gas companies. The Company believes product offerings and current geographic presence within each segment's market provides appropriately diverse sources of cash flow. While each segment has unique technological expertise, all segments share a commitment to provide customers with quality services and products at competitive prices.

- Chemicals is comprised of two business divisions: Specialty Chemicals and Logistics. The Specialty Chemicals division designs, develops, manufactures, packages and markets specialty chemicals used in oil and gas well cementing, stimulation, acidizing, drilling and production. The Logistics division manages automated material handling, loading facilities, and blending capabilities for oilfield services companies.
- Drilling Products rents, inspects, manufactures and markets down-hole drilling equipment for the energy, mining, water well and industrial drilling sectors.
- Artificial Lift assembles and markets artificial lift equipment, including the Petrovalve line of rod pump components, electric submersible pumps, gas separators, valves and services that support coal bed methane and oil production.

Results of Operations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue	\$ 55,918	\$ 31,174	\$ 108,823	\$ 59,544
Cost of revenue	33,674	19,823	65,434	40,181
Gross margin	22,244	11,351	43,389	19,363
Selling, general and administrative costs	12,729	13,218	23,069	23,408
Depreciation and amortization	1,015	1,182	2,037	2,376
Research and development costs	594	364	1,093	726
Income (loss) from operations	7,906	(3,413)	17,190	(7,147)
Loss on extinguishment of debt	(3,225)	—	(3,225)	(995)
Interest and other expense, net	(4,486)	(4,955)	(9,326)	(9,111)
Other financing costs	—	—	—	(816)
Change in fair value of warrant liability	3,253	497	10,807	(1,316)
Income (loss) before income taxes	3,448	(7,871)	15,446	(19,385)
(Provision) benefit for income taxes	(1,322)	1,709	(2,946)	3,710
Net income (loss)	\$ 2,126	\$ (6,162)	\$ 12,500	\$ (15,675)

Consolidated Comparison of the Three and Six Months Ended June 30, 2011 and the Three and Six Months Ended June 30, 2010

Revenue for the second quarter of 2011 increased \$24.7 million, or 79.4%, as compared to the second quarter of 2010. Revenue for the six months ended June 30, 2011 increased \$49.3 million, or 82.8%, as compared to the first half of 2010. An increase in comparative quarter and year to date revenue was realized across all Company segments and was attributable to positive fluctuations in sales volumes, oil prices, gold and copper mineral prices, new and existing product demand, drilling activity and new product sales as well as geographic market expansion and increased customer base. Growth in the Company's international business and strategic initiatives directed at adapting existing or developing customer responsive products to meet the changing demands in existing and targeted markets also contributed to the favorable period over period revenue streams.

The consolidated gross margin for the quarter increased by \$10.9 million, or 96.0% as compared to the second quarter of 2010, while consolidated gross margin as a percentage of revenue increased by 3.4% to 39.8% from 36.4% period over period. The 2011 year to date consolidated gross margin increased by \$24.0 million, or 124.1%, from \$19.4 million in 2010, while the year to date consolidated gross margin as a percentage of sales increased by 7.4% to 39.9% from 32.5% period over period. The Company calculates consolidated gross margin as consolidated revenue less associated cost of revenue, inclusive of personnel, occupancy, depreciation and other expenses directly associated with the generation of revenue.

The favorable consolidated gross margin variances for the quarter and year to date periods ended June 30, 2011 as compared to prior year periods is primarily the result of favorable operating results within the Chemicals and Drilling segments. Chemicals contributed incrementally \$4.6 million and \$10.1 million, respectively, to the quarter and year to date variances, with increased sales volume being the primary contributing factor. This was evidenced by the \$15.1 million, or 108.0%, and \$28.9 million, or 106.7%, increases in revenue, respectively, quarter and year to date period over period. Drilling contributed an incremental \$6.6 million and \$14.1 million, respectively, to the favorable quarter and year to date period over period variances with a proportionately higher increase in revenue as a result of implemented price increases combined with various shifts in product mix from lower to higher margin products, as well as, continued commitment to and oversight of cost containment efforts.

Selling, general and administrative expenses, ("SG&A") are not directly attributable to products sold or services rendered. SG&A expense for the second quarter of 2011 decreased \$0.5 million as compared to the second quarter of 2010. While recurring salary, benefit and incentive/stock based compensation increased \$2.0 million during the second quarter of 2011, the increase was offset by a \$0.4 million reduction in period over period professional fees and \$3.0 million of non-recurring stock compensation expense recognized in 2010 related to equity awards granted to the Company's former President and CEO which vested upon his retirement. Other factors impacting SG&A included the rising price of fuel combined with increased delivery activity to customer locations, incremental administrative charges relating to annual shareholder meetings and various investor relation events and incremental operating lease expense associated with lab equipment required in ongoing R&D activities.

SG&A expenses for year to date June 30, 2011, decreased slightly to remain relatively flat at \$23.1 million when compared to \$23.4 million for the same year to date period in 2010. Although comparable, the composition of the underlying SG&A expense components changed. A \$3.2 million increase in recurring salary, benefit and incentive/stock based compensation realized during the first half of 2011 was offset by a \$0.9 million reduction in period over period professional fees and \$3.0 million of non-recurring stock compensation expense recognized in 2010 related to equity awards granted to the Company's former President and CEO which vested upon his retirement. Other factors

impacting period over period year to date SG&A expense included incremental administrative charges relating to annual shareholder meetings and various investor relations events and incremental operating lease expense associated with lab equipment required in ongoing R&D activities.

Depreciation and amortization expense decreased \$0.2 million, or 14.1%, and \$0.3 million, or 14.3%, for the second quarter and year to date periods of 2011, respectively, relative to the same periods of 2010. The period over period declines are primarily due to the impairment of fixed assets and other intangible assets recognized in December 2010 with no comparable activity in 2011.

R&D expense of \$0.6 million was recognized during the second quarter of 2011, an increase of 63.2%, as compared to \$0.4 million for the second quarter of 2010. Year to date R&D expense increased \$0.4 million, or 50.6%, to \$1.1 million from \$0.7 million in the first half of 2010. The increase in R&D expense is primarily attributable to on-going strategic initiatives within the Chemicals segment.

Loss on the extinguishment of debt increased \$3.2 million and \$2.2 million, respectively, for the second quarter and year to date periods ended June 30, 2011, as compared to the same periods of 2010. The \$2.1 million loss was attributable to the write-off of unamortized deferred financing and discount costs related to a debt for equity exchange and subsequent retirement of the Company's outstanding term loan in 2011 combined with \$1.1 million loss on the extinguishment of debt related to the June 2011 exchange of \$4.5 million of convertible debt into common shares. During the first quarter of 2010, a \$1.0 million loss on the extinguishment of debt was realized due to the write off of deferred financing costs in association with the retirement of the then existing Wells Fargo senior credit facility.

Interest expense totaled \$4.5 million for the second quarter ended June 30, 2011, a decrease of \$0.5 million, or 9.2%, as compared to the same period of 2010. The decrease was the combined result of decreases in the average term loan and convertible debt balances outstanding and decreases in associated amortization of issuance costs and debt discount. Upon repayment of debt a proportionate share of associated issuance costs are expensed or written off. When repayment of debt resulted in a loss on extinguishment the proportionate share of issuance costs associated with the debt extinguished was included as a loss on extinguishment versus amortization expense in accordance with current accounting guidance.

Interest expense totaled \$9.3 million for the year to date period ended June 30, 2011, an increase of \$0.2 million, or 2.0%, as compared to the same period of 2010. The net increase was the combined result of timing differences in term loan debt issuance amortization due to the repayment and establishment of the Whitebox term loan during the 2011 and 2010 comparable periods, respectively, plus an increase in convertible debt bifurcation amortization due to maturation of the convertible loan offset by a net increase in interest expense due to the early extinguishment of the Whitebox term loan between the comparable periods.

As of June 30 2011, the warrant liability fair value decreased by \$3.3 million, or 17.5%, to \$15.4 million from \$18.6 million at March 31, 2011. The primary cause of the decrease was the exercise of 0.2 million of Contingent Warrants and 0.2 million of Exercisable Warrants during the second quarter of 2011, offset by a change in the average fair value per warrant of \$0.08/warrant to \$7.44 from \$7.36 for the period ended March 31, 2011, due to an increase in the Company's common share price over the period. As of June 30 2011, the fair value of the warrant liability decreased by \$10.8 million, or 41.3%, to \$15.4 million from \$26.2 million at December 31, 2010. The primary cause of the decrease was the exercise of 2.8 million of Contingent Warrants and 1.0 million of Exercisable Warrants during the six months ended June 30, 2011, partially offset by a change in the average fair value per warrant of \$2.97/warrant to \$7.44 from \$4.47 for the period ended December 31, 2010, due to an increase in the Company's common share price period over period. All fluctuations in the fair value of the warrant liability are recognized in the statement of operations as noncash income or expense. The remaining warrant liability will never be cash settled; rather future fluctuations in value will be continue to be recognized as noncash income or expense. The warrant liability will be settled and removed from the balance sheet upon exercise or forfeiture of all remaining outstanding warrants

For the six months ended June 30, 2011, other financing costs decreased \$0.8 million due to the write-off of \$0.8 million of debt issuance costs recognized during the six months ended June 30, 2010, related to the refinancing of the Company's senior credit facility. No comparable cost existed for the six months ended June 30, 2011.

The effective income tax rates for the second quarter of 2011 and 2010 were 38.3% and (21.7%), respectively, while the June 30, 2011 and 2010 year to date rates were 19.1% and (19.1%), respectively. Fluctuations in the effective tax rates are primarily attributable to the non-cash fluctuations in the fair value of the Company's warrant liability and in the deferred tax asset valuation allowances of one of the Company's filing jurisdictions.

Quarterly Financial Data (Unaudited)

	Three Months Ended <u>March 31, 2011</u>	Three Months Ended <u>June 30, 2011</u>	Six Months Ended <u>June 30, 2011</u>
(in thousands, except per share data)			
Revenue	\$ 52,905	\$ 55,918	\$ 108,823
Gross margin	21,145	22,244	43,389
Net Income	10,374	2,126	12,500
Earnings per share:			
Basic	\$ 0.15	\$ 0.05	\$ 0.19
Diluted	0.13	0.04	0.17

Results of Operations by Reportable Segment

Chemicals (dollars in thousands)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	2011	2010	2011	2010
Revenue	\$ 29,142	\$ 14,017	\$ 56,068	\$ 27,129
Gross margin	\$ 11,011	\$ 6,403	\$ 22,312	\$ 12,215
Gross margin %	37.8%	45.7%	39.8%	45.0%
Income from operations	\$ 8,266	\$ 3,984	\$ 16,791	\$ 7,680
Income from operations %	28.4%	28.4%	29.9%	28.3%

Chemicals Comparison of the Three and Six Months Ended June 30, 2011 and the Three and Six Months Ended June 30, 2010

Chemicals revenue for the second quarter and year to date periods ended June 30, 2011, increased \$15.1 million, or 107.9%, and \$28.9 million, or 106.7%, respectively, over the same 2010 periods. Increased oil-directed and liquid-rich natural gas drilling activity was driven by period over period increases in global oil prices and solid pricing on liquid-rich natural gas. Strategic adaptation of the Company's natural gas effective complex nanofluid products to oil effective complex nanofluid products in conjunction with increased industry demand and growth, particularly within the Niobrara play, contributed to the period over period increased revenue and mitigated the impact of depressed natural gas rig counts. Increasing industry recognition of the production and environmental benefits of new and existing products has resulted in increased product demand for microemulsion products from both new and existing customers, as well as within international markets. For the second quarter and year to date periods ended June 30, 2011, \$3.9 million and \$8.3 million, respectively, related to revenue derived from new product sales.

The Company's logistics business, MTI, realized a 20.5% increase in revenue during the second quarter of 2011 as compared to the second quarter of 2010, associated with existing project completions and increased new construction activity.

Chemicals gross margin increased \$4.6 million, or 72.0 %, during the second quarter of 2011; however gross margin as a percentage of revenue declined by 7.9%. For the 2011 year to date period, the gross margin increased \$10.1 million, or 82.7%; however gross margin as a percentage of revenue declined 5.2%. The increase in the gross margin is primarily attributable to increased activity and corresponding increases in product sales volume from existing and new customers. The gross margin decline as a percentage of revenue is the result of increased raw material costs and a shift in product mix from higher margin principal products to lower margin newly developed products tailored to meet specific customer requirements. Although new product gross margins as a percentage of revenue are slightly less robust than traditional products, the favorable increase in product sales volume and product demand remain contributory to the Company's bottom line. Increased transportation charges due to rising fuel costs and increased international facility fees resulting from growing international demand which further impacted the percentage gross margin. The Company actively monitors operational costs, as evidenced by a 1.2% and 1.0% decrease in direct cost as a percentage of revenue, respectively, in the 2011 second quarter and year to date periods, and plans to continue to reevaluate and manage costs to attain strategic operational efficiencies.

Income from operations increased \$4.3 million, or 107.5%, during the second quarter of 2011 and increased \$9.1 million, or 118.6%, for 2011 year to date as compared to the same 2010 periods due to increased product sales and service revenues offset by increased R&D activity. Product sales and service revenue for the year to date 2011 period increased \$27.7 million and \$1.2 million, respectively, as compared to the same period in 2010. Year to date R&D activity increased \$0.5 million period over period due to new product development and preservation of intellectual property rights.

Drilling (dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue	\$ 24,464	\$ 14,861	\$ 47,105	\$ 27,772
Gross margin	\$ 10,808	\$ 4,215	\$ 19,753	\$ 5,734
Gross margin %	44.2%	28.4%	41.9%	20.6%
Income (Loss) from operation	\$ 5,905	\$ (232)	\$ 10,602	\$ (3,401)
Income (Loss) from operations %	24.1%	(1.6)%	22.5%	(12.2)%

Drilling Comparison of the Three and Six Months Ended June 30, 2011 and the Three and Six Months Ended June 30, 2010

Drilling revenue for the second quarter and year to date periods ended June 30, 2011, increased \$9.6 million, or 64.6%, and \$19.3 million, or 69.6%, respectively, relative to the same 2010 periods.

The favorable 2011 activity was the combined result of a number of factors, including:

- Increased horizontal and vertical rig count and correlated increase in market activity for the 2011 quarter and year to date periods as compared to 2010.
- Increased market share in certain regions in which the Company operates.
- Realized product and rental price increases implemented in the latter part of 2010 consisting of:
 - Motor price increases of 30%-40% in June 2010;
 - Teledrift product price increases of 10% in May 2010 and 5%-8% in November 2010; and
 - Galleon product and service price increases as needed to maintain material margins of greater than 50%.
- Increased product sales due to collaborative joint marketing efforts across all reporting units.
- Increased domestic and international customer base.
- Increased international mining activity due to increased gold and copper prices.

Drilling revenue for the second quarter of 2011 increased \$9.6 million, or 64.6%, attributable to increased rental revenue of \$5.2 million, product revenue of \$3.4 million, and service revenue of \$1.0 million. Increased rig count and corresponding market demand resulted in incremental rental revenue of \$3.5 million for motor, shock and jar rentals and \$1.7 million of Teledrift tool rentals attributable to the Permian Basin and Argentina areas. Further, incremental product revenue of \$2.0 million in motor sales and \$0.5 million of float equipment sales were attributable to the favorable trend in horizontal and vertical rig counts. Product revenue increased \$0.9 million due to incremental equipment sales resulting from increased gold and copper prices. The incremental increase in service revenue was attributable to increased transportation and sub-rental repair revenue activity.

Drilling revenue for the first half of 2011 increased \$19.3 million, or 69.6%, as a result of increased rental revenue of \$11.7 million, product revenue of \$6.0 million, and service revenue of \$1.6 million. Increased rig count and corresponding increased market demand resulted in the incremental increases of \$5.5 million in rental revenue, \$3.0 million in product revenue and \$1.6 million in service revenue attributable to the related increase in drilling and market activity. An additional \$1.7 million increase in product revenue occurred related to incremental equipment sales as a result of increased gold and copper prices during the 2011 year to date period compared to the same period in 2010. Further, as a result of Teledrift's competitive pricing relief (10% in May 2010 and 5%-8% in November 2010) and changes in product sales mix due to customer increased demand for Teledrift's Pro Series tools, rental revenues incrementally increased \$3.0 million and \$1.0 million, respectively.

Drilling Product gross margins for the quarter and year to date periods ended June 30, 2011 increased \$6.6 million, or 156.4%, and \$14.0 million, or 244.5%, relative to the same 2010 periods due to realized product and rental price increases, a product mix shift from lower to higher margin products; as well as, the Company's continued commitment to, and oversight of, cost containment efforts.

Gross margins as a percentage of revenue increased 15.8%, to 44.2%, and 21.3%, to 41.9%, respectively, over the same second quarter and year to date periods of 2010. Increased margins were a direct result of the Company's efforts to market motors with superior margins in identified market growth areas. Further, the Company instituted price increases of approximately 10% for all shock, jar and stabilizer rentals and approximately 5%-7% within the Teledrift Pro-Tools Series.

While Drilling revenue for the second quarter of 2011 increased 64.6% compared to the second quarter of 2010, associated costs of revenue and direct expenses decreased as a percentage of revenue by 3.0% and 3.8%, respectively. Similarly, 2011 year to date drilling revenue relative to comparable 2010 year to date activity increased 69.6%, while associated costs of revenue and direct expenses decreased as a percentage of revenue by 5.5% and 6.2%, respectively

Income from operations for the quarter and year to date periods ended June 30, 2011, improved \$6.1 million, or 2,645.3%, and \$14.0 million, or 411.7%, relative to the same 2010 periods. Improved performance is due to increased domestic and international market demand, realized product and rental price increases, strategic marketing efforts and cost containment measures.

Artificial Lift (dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue	\$ 2,312	\$ 2,296	\$ 5,650	\$ 4,643
Gross margin	\$ 425	\$ 733	\$ 1,324	\$ 1,414
Gross margin %	18.4%	31.9%	23.4%	30.5%
Income from operations	\$ (32)	\$ 379	\$ 394	\$ 633
Income from operations %	(1.4)%	16.5%	7.0%	13.6%

Artificial Lift Comparison of the Three and Six Months Ended June 30, 2011 and the Three and Six Months Ended June 30, 2010

Artificial Lift revenue for second quarter of 2011 remained relatively flat at \$2.3 million as compared to the same period in 2010. Natural gas drilling activity decreased 8.2% to 961 rigs from 1,047 rigs period over period. Despite the unfavorable period over period conditions, the Company's on-going development and retention of key customer relationships, coupled with increased prices, mitigated the negative impact of the decline in natural gas drilling activity.

Revenue for the year to date period ended June 30, 2011, totaled \$5.6 million, an increase of \$1.0 million, or 21.7%, compared to \$4.6 million for the same period of 2010. The increase is primarily attributable to a period over period increase in product sales revenue of \$0.9 million, or 20.3%, related to a significant contract executed in July 2010 for the Company to be the sole supplier of pumps, motors and other equipment for natural gas rigs for a major natural gas exploration and production company operating in the coal bed methane area of the Powder River.

The gross margins for the second quarter and year to date periods ended June 30, 2011, decreased by \$0.3 million, or 42.0%, and by \$0.1 million, or 6.4%, relative to the same periods of 2010 due to increased replacement inventory prices and the inability to pass incremental price increases on to customers due to industry pricing constraints.

Loss and reduced income from operations for the second quarter and year to date periods ended June 30, 2011, respectively, were attributable to lower than expected activity driven by repressed natural gas prices and drilling activity, increased raw material prices, and increased transportation expense due to rising fuel costs.

Market Conditions for the Three Months Ended June 30, 2011 and March 31, 2011:

	Three Months Ended		% Change
	June 30, 2011	March 31, 2011	
Average Active Drilling Rigs			
United States	1,835	1,721	6.6%
Canada	184	563	(67.3%)
Total North America	<u>2,019</u>	<u>2,284</u>	(11.6%)
Vertical rigs (U.S.)	564	514	9.7%
Horizontal rigs (U.S.)	1,043	981	6.3%
Directional rigs (U.S.)	228	226	0.9%
Total drilling type (U.S.)	<u>1,835</u>	<u>1,721</u>	6.6%
Oil vs. Natural Gas Drilling Rigs			
Oil	1,058	1,198	(11.7%)
Natural Gas	961	1,086	(11.5%)
Total North America	<u>2,019</u>	<u>2,284</u>	(11.6%)
Average Commodity Prices			
West Texas Intermediate Crude Prices (\$ / barrel)	\$ 102.23	\$ 93.54	9.3%
Natural Gas Prices (\$/Mmcf)	\$ 4.45	\$ 4.04	10.2%

Results of Operations (in thousands):

	Three Months Ended	
	June 30, 2011	March 31, 2011
Revenue	\$ 55,918	\$ 52,905
Cost of revenue	33,674	31,760
Gross margin	22,244	21,145
Selling, general and administrative costs	12,729	10,341
Depreciation and amortization	1,015	1,021
Research and development costs	594	499
Income (loss) from operations	7,906	9,284
Loss on extinguishment of debt	(3,225)	—
Interest and other expense, net	(4,486)	(4,840)
Change in fair value of warrant liability	3,253	7,554
Income (loss) before income taxes	3,448	11,998
(Provision) benefit for income taxes	(1,322)	(1,624)
Net income (loss)	<u>\$ 2,126</u>	<u>\$ 10,374</u>

Consolidated Comparison of the Three Months Ended June 30, 2011 and the Three Months Ended March 31, 2011

Revenue for the three months ended June 30, 2011 increased \$3.0 million, or 5.7%, compared to the three months ended March 31, 2011, primarily due to incremental revenue increases by Chemicals of \$2.2 million and by Drilling of \$1.8 million, offset by a decrease of Artificial Lift by \$1.0 million. The increase in revenue is due to improved product sales and rental activity volumes, increased global oil prices, increased product and market demand, increased horizontal and vertical drilling activity, domestic market expansion and strategic growth in international markets.

The consolidated gross margin increased by \$1.1 million, or 5.2%, for the second quarter of 2011 as compared to the first quarter. The consolidated gross margin as a percentage of revenue remained relatively comparable at 39.8% for the second quarter of 2011 as compared to 40.0% for the first quarter of 2011. As the second quarter 2011 gross margin increased by 5.2%, and revenue by 5.7%, the quarter over quarter margin remained relatively flat as cost pressures from rising material cost and freight were offset by strategic increases in product pricing, increased volume and rental activity due to increased rig count and commodity prices. Chemicals contributed \$11.0 million, Drilling contributed \$10.8 million and Artificial Lift contributed \$0.4 million to the favorable consolidated gross margin. Operating expense efficiencies are attributable to active management oversight and continued commitment to cost containment and price increases. The consolidated gross margin is calculated as consolidated revenue less associated cost of revenue, inclusive of personnel, occupancy, depreciation and other expenses directly associated with the generation of revenue.

Selling, general and administrative expenses, (“SG&A”) are not directly attributable to products sold or services rendered. SG&A expense for the three months ended June 30, 2011 increased \$2.4 million, or 23.1%, as compared to the three months ended March 31, 2011. The increase was primarily attributable to incremental expense related to compensatory equity awards granted in April 2011 and June 2011 and third party professional fees, in particular as related to the JD Edwards Oracle accounting system implementation. No comparable activity occurred during the first quarter of 2011.

Depreciation and amortization expense remained steady period over period.

R&D costs increased \$0.1 million, or 19%, from \$0.5 million for the three months ended June 30, 2010, as compared to \$0.6 million for the three months ended March 31, 2011. This was primarily attributable to an increase in on-going new product development and effectiveness testing of the Company’s specialty chemical products.

Loss on the extinguishment of debt totaled \$3.2 million in the second quarter of 2011 with no comparable activity recognized during the first quarter of 2011. The \$3.2 million loss is the result of a \$2.1 million write off of unamortized deferred financing costs related to the repayment of the Company’s term loan and acceleration of proportionate unamortized discount related to a second quarter exchange of convertible debt for Company common stock. Additionally, a second quarter loss on extinguishment of debt of \$1.1 million was recognized related to the aforementioned debt for equity exchange.

Interest expense was \$4.5 million for the three months ended June 30, 2011, a decrease of \$0.4 million, or 7.3% as compared to \$4.9 million for the quarterly period ended March 31, 2011. The decrease was primarily due to a \$0.3 million reduction of interest expense realized upon early repayment of the Company’s term loan and a \$0.02 million reduction associated with the \$4.5 million exchange of convertible debt to equity.

As noted above, as of June 30 2011, the fair value of the warrant liability was determined to have decreased by \$3.3 million, or 17.5%, to \$15.4 million from \$18.6 million at March 31, 2011. The primary cause of the decrease in the warrant liability was the exercise of 0.2 million of Contingent Warrants and 0.2 million of Exercisable Warrants during the second quarter of 2011 partially offset by a change in the average fair value per warrant of \$0.08/warrant to \$7.44 from \$7.36 at March 31, 2011 driven by an increase in the Company’s common share price over the period.

The Company recorded an income tax provision of \$1.3 million for the quarter ended June 30, 2011, reflecting an effective tax rate of 38.3%, compared to \$1.6 million recognized for the quarter ended March 31, 2011, reflecting an effective tax rate of 13.5%. Fluctuation in the effective tax rate is primarily attributable to the non-cash fluctuations in the fair value of the warrant liability and valuation allowance against the deferred tax asset of one of the Company’s filing jurisdictions.

Capital Resources and Liquidity

Overview

Ongoing capital requirements result from the Company’s need to service debt, acquire and maintain equipment, and fund working capital requirements. During the first half of 2011, the Company primarily funded capital requirements with operating cash flows, the issuance of common shares and proceeds received from the exercise of Exercisable and Contingent Warrants.

Favorable trending within the energy industry, including increased petroleum and natural gas prices, number of well completions, and overall drilling rig activity during the six months ended June 30, 2011, as compared to the six months ended June 30, 2010, has had a positive impact upon the Company’s financial performance and liquidity. Positive trending is evidenced by an average three and six

month price of West Texas Intermediate Crude of \$102.23/barrel and \$97.88 /barrel for the three and six months ended June 30, 2011, compared to \$77.79/barrel and \$78.22/barrel for the three and six months ended June 30, 2010, respectively. Additionally WTI was at an average price of \$93.54/barrel for the three months ended March 31, 2011 and \$85.10/barrel for the three months ended December 31, 2010. Further, the average three and six month price of Natural gas/Mmcf was \$4.45/Mmcf and \$4.26/Mmcf compared to \$4.21/Mmcf and \$4.51/Mmcf for the three and six months ended June 30, 2010, respectively. Further, natural gas prices were \$4.04/Mmcf for the three months ended March 31, 2011 and \$3.66/Mmcf for the three months ended December 31, 2010.

The energy industry, much like the overall economy, appears to be recovering unevenly as the percentage increase in the average price of natural gas was lower than the percentage increase in the average price of oil. Regardless, the industry has seen overall period over period improvement in both of the oil and natural gas markets from the fourth quarter of 2010 through to the first half of 2011. Comparison of the second half of 2011 to the second half of 2010 highlights improved key oil industry metrics and moderate key natural gas metrics and improved mineral prices. The Company's strategic business development initiatives, expanded customer base, strategic pricing increases, new product development, and increased market share, period over period, resulted in improved operating results for the three and six months ended June 30, 2011 when compared to the three and six months ended June 30, 2010.

Cash and cash equivalents totaled \$15.1 million at June 30, 2011 primarily due to on-going management of cash flows from operations, as well as, proceeds received from the exercise of Exercisable and Contingent Warrant conversions and new issuances of Company shares as part of a private placement of shares with investors and in repayment of term loan debt obligation during the first half of 2011. During the first half of 2011, the Company paid down \$32.9 million of principal on the term loan debt, \$1.0 million of commitment fees, \$3.7 million for capital expenditure and utilized \$18.8 million in working capital requirements. Additionally, the Company extinguished \$4.5 million of its convertible debt obligation for 0.6 million of common shares.

During the six months ended June 30, 2011, the Company generated \$12.5 million of net income and received proceeds of \$4.6 million from the exercise of Exercisable and Contingent Warrants, and \$29.4 million from the private placement of 3.6 million common shares. The Company utilized the \$29.4 million in proceeds from the private placement as funds to assist in the repayment of the term loan debt in full. The introduction of new product offerings, competitive pricing of products and commitment to increased international presence initiatives, as well as gains in market share, currently support the Company's forecast operating and capital expenditure requirements for the remainder of 2011. The Company is also exploring alternative financing arrangements in order to secure the most favorable debt and equity financing terms available.

Plan of Operations for 2011

During the first six months of 2011 improved oil and liquid-rich natural gas prices, related drilling activity and success in implementation of strategic initiatives continued to improve the demand for the Company's products and services. The disproportionate recovery of the economy as a whole and the energy industry in particular continues to make forecasting the depth and length of the recovery cycle in the current economy challenging. Contributing to the energy industry's uncertainty is the potential impact of political unrest in key Middle Eastern energy producing countries overlaid with worldwide financial uncertainty. The 2011 U.S. average annual drilling rig count increased to 1,778 rigs for the six months ended June 30, 2011 from 1,433 rigs, or 24.1%, for the six months ended June 30, 2010, 1,721 rigs, or a 27.1% increase, from 1,354 rigs for the three months ended March 31, 2010. The Company has experienced encouraging revenue growth and sustained consolidated percentage gross margin of approximately 40.0% for the six months ended June 30, 2011 compared to 36.0% and 32.5% for the twelve months ended December 31, 2010 and for the six months ended June 30, 2010, respectively.

The Company's functioning 2011 Plan of Operations (the "2011 Plan") anticipates sustained improvement in industry economic conditions. The 2011 Plan includes the following objectives:

- Establish a traditional commercial banking relationship to provide increased capacity and flexibility to respond to increased 2011 demand forecast.
- Explore funding alternatives with financial advisors as the availability of additional equity funding should increase as the global economy continues to improve and as the oil and gas industry growth continues.
- Maintain active management oversight of capital expenditures despite improved cash flows. The capital expenditure budget for 2011 is approximately \$8.8 million, an increase of \$2.7 million from the \$6.1 million spent in 2010. To date, \$3.7 million of the estimated capital budget has been utilized at June 30, 2011.

- Continue expansion into foreign markets to realize strategic benefits for existing business segments. The Company is actively engaged with potential business partners that offer a broader geographic reach of new and unique ways to use existing products and services.
- Emphasize product differentiation and development and enact competitive product price increases to facilitate margin improvement. Continue to assess both outsourced and in-house costs and capabilities to identify operational improvement opportunities.
- Manage operating cash flows through receivables, payables and inventory management. Increased cash flows from inventory management are expected to be realized as product demand increases. Overall management of working capital will remain a priority. Revisit pricing strategies and adjust prices to attain the most favorable market position that conditions and industry environment will allow.
- Manage asset utilization to enhance and increase the synergy of operations and sales across all business reporting units and product lines in order to be prepared and responsive with available resources to meet increasing market demand of products and services.
- Continue to emphasize technological advancements and differentiation across all business segments. Technological innovations are important to the Company's continued success. Remain committed to current R&D activities supporting Chemicals' additives solutions and Drilling's product design differentiation to respond to specific demands of customers and areas where the Company operates.
- Implement a new ERP system to actively manage internal controls, reduce current accounting constraints, and increase operational performance and responsiveness.
- Simplify existing tax structure, while taking advantage of existing NOLs as appropriate.

Cash Flows

Consolidated cash flows by type of activity are noted below (in thousands):

	<u>Six Months Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Net cash used in operating activities	\$ (3,390)	\$ (4,910)
Net cash used in investing activities	(1,598)	(838)
Net cash provided by financing activities	287	4,537
Effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency	<u>(25)</u>	<u>(9)</u>
Net decrease in cash and cash equivalents	<u>\$ (4,726)</u>	<u>\$ (1,220)</u>

Operating Activities

During the six months ended June 30, 2011 and 2010, net cash used in operating activities totaled \$3.4 million and \$4.9 million, respectively. Consolidated net income totaled \$12.5 million for the six months ended June 30, 2011, compared with a consolidated net loss of \$15.7 million for the for the six months ended June 30, 2010. Non-cash contributions to the net income totaled \$2.9 million consisting of a \$10.8 million decrease in warrant liability fair value and \$1.4 million of gains on the sale of assets. Contributory non-cash items were partially offset by non-cash reductions to net income consisting of \$5.0 million of asset depreciation and amortization, \$2.0 million of deferred financing cost amortization, \$3.2 million of loss on an extinguishment of debt, \$2.7 of stock compensation expense, and \$2.7 million of accretion of debt discount. Non-cash reductions to the net loss for the six months ended June 30, 2010, totaled \$17.5 million, and were comprised primarily of \$7.0 million of depreciation and amortization, \$3.8 million of stock compensation expense, \$2.5 million of accretion of debt discount, \$1.5 million of deferred financing cost amortization, \$1.7 million of recognized incremental tax benefits related to the Company's share based awards and a \$1.3 million unfavorable change in the fair value of the warrant liability offset by a contributory non-cash item of \$1.2 million of deferred tax benefit.

During the six months ended June 30, 2011, changes in working capital used \$18.8 million of cash primarily to meet increased market demand for products and services. Increased asset balances, in particular, accounts receivable, inventory and other current assets, and decrease in accrued liabilities of \$1.2 million, are

representative of the Company's continued operational growth. Offsetting the working capital utilized for the six months ended June 30, 2011, is an increase in income tax receivable net of related income tax payable on current year taxable income. Further, the \$1.3 million increase in accounts payable is indicative of the Company's increase activity and growth during the period. During the six months ended June 30, 2010, changes in working capital used \$6.7 million comprised of an increase in accounts receivable of \$5.4 million and an increase in income taxes receivable of \$3.1 million offset by a decrease in accrued liabilities of \$2.3 million.

Investing Activities

During the six months ended June 30, 2011 and 2010, capital expenditures totaled \$3.7 million and \$2.2 million, respectively. Capital expenditures increased during 2011 as compared to 2010 due to investments in capital infrastructure required to meet increased customer product and service demands, as well as increased drilling and market activity. Cash flows used in investing activities during the six months ended June 30, 2011 and 2010 were offset by \$2.3 million and \$1.3 million of proceeds received from the sale of assets, respectively. Net cash used in investing activities for six month periods ended June 30, 2011 and 2010 were \$1.6 million and \$0.8 million, respectively.

Financing Activities

During the six months ended June 30, 2011, financing activities provided net cash of \$0.3 million. During the six months ended June 30, 2011 the Company paid \$32.6 million to effectively repay the Company's term loan and \$0.3 million in capital lease payments. Additional payments during the six months ended June 30, 2011 consisted of \$1.0 million in commitment fees and \$0.2 million of cash outlay incurred in the reacquisition of common stock pursuant to payments made for employee taxes associated with stock based compensation transactions. These payments were partially offset by \$29.4 of proceeds from the sale of 3.6 million shares of the Company's common stock on May 11, 2011, \$4.6 million in proceeds from warrant exercises and \$0.1 million in proceeds from the exercise of stock options. During the six months ended June 30, 2010, the Company's financing activities provided \$4.5 million of net cash. On March 31, 2010, the Company entered into a new term loan in the principal amount of \$40.0 million of which \$32.0 million of the net proceeds was used to refinance the Company's existing senior credit facility. The Company also used proceeds received as payment for associated debt issuance costs of \$1.7 million. Further, a \$1.7 million increase in excess tax benefit related to stock-based compensation was also realized.

Off-Balance Sheet Arrangements

As of June 30, 2011, no unconsolidated entity or financial partnership, commonly referred to as "structured finance" or "special purpose entities" ("SPEs") had been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

The Company provided no guarantee to any customer or vendor nor did the Company have any off-balance sheet arrangements or commitments, that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, change in financial condition, revenue, expenses, results of operations, liquidity, capital expenditures or capital resources that would be material to investors.

Contractual Obligations

Cash flows from operations are dependent on a number of factors, including fluctuations in operating results, accounts receivable collections, inventory management, and the timing of payment for goods and services. Correspondingly, the impact of contractual obligations on the Company's liquidity and capital resources in future periods should be analyzed in conjunction with such factors.

Material contractual obligations consist of repayment of amounts borrowed through convertible notes and long-term debt and obligations under capital and operating leases. Contractual obligations, including interest payments on the convertible notes and long-term debt, at June 30, 2011 are as follows (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Secure convertible senior notes	\$ 36,004	\$ —	\$ 36,004	\$ —	\$ —
Unsecured senior convertible notes	70,500	—	70,500	—	—
Interest expense on convertible notes (1)	11,182	5,591	5,591	—	—
Capital lease obligations	1,075	510	565	—	—
Operating lease obligations	4,000	1,454	1,116	147	1,283
Total	\$122,761	\$7,555	\$113,776	\$ 147	\$ 1,283

(1) Interest at 5.25% with principal repayment on February 15, 2013, the date of the holder's first put option.

Critical Accounting Policies and Estimates

The Company's Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Preparation of these statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements and accompanying footnotes. Part II, Item 8, Financial Statements and Supplementary Data, Note 2, Summary of Significant Accounting Policies and Part II, Item 7, Management's Discussion and Analysis of Financial Conditions and Results of Operations, "Critical Accounting Policies and Estimates" of the Company's Annual Report on Form 10-K for the year ended December 31, 2010, and the "Notes to Unaudited Condensed Consolidated Financial Statements" of this Quarterly Report describe the significant accounting policies and critical accounting estimates used in the preparation of consolidated financial statements. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of the Company's financial condition and results of operations and require management's most subjective judgments. The Company regularly reviews and challenges judgments, assumptions and estimates related to critical accounting policies. The Company's estimates and assumptions are based on historical experience and changes in the business environment; however, actual results may materially differ from estimates under alternative conditions. There have been no significant changes in the Company's critical accounting estimates during the three months ended June 30, 2011.

Recently Issued Accounting Standards

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*" to amend certain measurement and disclosure requirements related to fair value measurements. Additional disclosure requirements included quantitative information regarding unobservable inputs used in Level 3 measurements and disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy. The guidance is effective prospectively for interim and annual reporting periods beginning after December 15, 2011, with early adoption prohibited. The Company does not expect adoption of the guidance to have a material effect on the consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, "*Presentation of Comprehensive Income*" to provide revised guidance on the presentation of comprehensive income. The guidance requires presentation of components of net income and other comprehensive income within one continuous statement or in two separate, but consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. The guidance does not require any change in the components recognized in net income or other comprehensive income in accordance with current GAAP. The guidance requires retrospective application and is effective for fiscal years and interim periods beginning after December 15, 2011. Early adoption is permitted. The Company does not expect adoption of the guidance to have a material effect on the consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in interest rates, and, to a limited extent, commodity prices and foreign currency exchange rates. Market risk is measured as the potential negative impact on earnings, cash flows or fair values resulting from a hypothetical change in interest rates or foreign currency exchange rates during the period. The Company manages exposure to market risks at the corporate level. Interest-sensitive assets and liabilities are monitored and adjusted to provide liquidity necessary to satisfy forecast short-term needs. The Company's risk management policies allow the use of specified financial instruments for hedging purposes only; speculation on interest rates or foreign currency rates is not permitted. The Company does not consider current risk management activities to be material.

At June 30, 2011, the Company did not have significant market risk related to changes in interest rates, commodity prices or foreign currency exchange rates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Furthermore the disclosure controls and procedures are designed to ensure that such information is accumulated and communicated to management, including the principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of controls and procedures. Accordingly, even effective disclosure controls and procedures only provide reasonable assurance that control objectives are attained. The Company's disclosure controls and procedures have been designed to provide such reasonable assurance.

As of the end of the period covered by this report, the Company's management, inclusive of all principal executive and principal financial officers' participation, evaluated the effectiveness of the design and operation of the Company's disclosure controls and

procedures. Based upon that evaluation, the Company’s management concluded that a previously identified material weakness in internal control related to the timely and effective preparation of account reconciliations in connection with the monthly close process, as disclosed in the Annual Report on Form 10-K for the year ended December 31, 2010, still exists as of June 30, 2011, accordingly, associated disclosure controls and procedures are still considered ineffective.

Remediation Plan and Status

The Company’s management is actively committed to and engaged in the implementation and execution of remediation efforts to resolve the identified material weakness; as well as proactive in management of any other areas of risk that may be identified. The remediation efforts are intended to address the identified material weakness as well as to continue to enhance the Company’s overall financial control environment. The effectiveness of the on-going remediation efforts to ensure the timely and effective preparation of account reconciliations in conjunction with the monthly financial close process have not yet been fully tested in order to assess resolution of identified material weakness.

The Company’s executive management team and Board of Directors remain committed to the achievement and maintenance of a strong control environment, high ethical standards, and financial reporting integrity.

Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2011, the Company has continued to implement and execute policies and procedures to ensure the effectiveness the Company’s overall financial control environment.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Litigation

Although subject to ongoing litigation, the Company does not believe any are probably of success or will result in material uninsured losses. The possibility exists, however, that an unexpected judgment could be rendered against the Company in certain cases in which the Company is involved that could be uninsured and/or beyond the amounts currently reserved. In certain circumstances, those losses could be material.

Item 1A. Risk Factors

There has been no material change in the risk factors described in Part I, Item 1A. – “Risk Factors” of the Company’s Annual Report. See Part I, Item 1A. – “Risk Factors,” of the Annual Report for a detailed discussion of the risk factors affecting the Company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

During the three months ended June 30, 2011, the Company purchased 16,339 shares of its commons stock to satisfy tax withholding requirements and payment obligations related to period vesting of restricted shares.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may Yet Be Purchased Under the Plans or Programs
April 1, 2011 to April 30, 2011	4,147	\$ 8.73	—	—
May 1, 2011 to May 31, 2011	12,192	\$ 9.48	—	—
June 1, 2011 to June 30, 2011	—	\$ —	—	—
Total	16,339	\$ 9.29	—	—

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.1*	Amendment to Employment Agreement, dated as of May 19, 2011, between the Company and Johnna Kokenge.
10.2*	Amendment to Employment Agreement, dated as of May 19, 2011, between the Company and Jesse E. Neyman.
10.3*	Amendment to Employment Agreement, dated as of May 19, 2011, between the Company and Steve Reeves.
10.4*	Amendment to Second Amended and Restated Service Agreement, dated as of May 19, 2011, between the Company and Protechnics II, Inc.
10.5*	Non-Qualified Stock Option Agreement dated as of April 8, 2011 between the Company and Steve Reeves.
10.6*	Non-Qualified Stock Option Agreement dated as of April 8, 2011 between the Company and Jesse E. Neyman.
10.7*	Non-Qualified Stock Option Agreement dated as of April 8, 2011 between the Company and John W. Chisholm.
10.8*	Non-Qualified Stock Option Agreement dated as of April 8, 2011 between the Company and Johnna Kokenge.
10.9*	Restricted Stock Agreement dated as of April 8, 2011 between the Company and Steve Reeves.
10.10*	Restricted Stock Agreement dated as of April 8, 2011 between the Company and John W. Chisholm.
10.11*	Restricted Stock Agreement dated as of April 8, 2011 between the Company and Johnna Kokenge.
10.12*	Restricted Stock Agreement dated as of June 3, 2011 between the Company and Steve Reeves.
10.13*	Restricted Stock Agreement dated as of June 3, 2011 between the Company and Jesse E. Neyman.
10.14*	Restricted Stock Agreement dated as of June 3, 2011 between the Company and John W. Chisholm.
10.15*	Restricted Stock Agreement dated as of June 3, 2011 between the Company and Johnna Kokenge.
10.16*	Form of Exchange Agreement.
10.17*	Form of Subscription Agreement (incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-3 (File No. 333-174199) filed on May 13, 2011).
31.1*	Rule 13a-14(a) Certification of Principal Executive Officer.
31.2*	Rule 13a-14(a) Certification of Principal Financial Officer.
32.1*	Section 1350 Certification of Principal Executive Officer.
32.2*	Section 1350 Certification of Principal Financial Officer.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Schema Document
101.CAL**	XBRL Calculation Linkbase Document
101.LAB**	XBRL Label Linkbase Document
101.PRE**	XBRL Presentation Linkbase Document
101.DEF**	XBRL Definition Linkbase Document

* Filed herewith.

** Furnished with this Form 10-Q, not filed.

AMENDMENT TO
EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (this “Amendment”) is entered into on May 19, 2011 (“Effective Date”), between Flotek Industries, Inc., a Delaware corporation (the “Company”), and Johnna Kokenge (“Employee”).

WHEREAS, the Company and Employee entered into that certain Employment Agreement dated as of February 28, 2011 and effective as of November 10, 2010 (the “Employment Agreement”); and

WHEREAS, the Company and Employee desire to amend and supplement the Employment Agreement as set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendment to Base Salary. The first sentence of Section 3(b) of the Employment Agreement is hereby amended and restated as follows:

“Employee’s annual base salary for the Employment Period shall be \$215,000, which effective as of August 1, 2011 shall be increased to \$255,000 (the “Base Salary”).”

2. No Further Amendments. Except as set forth in this Amendment, the Employment Agreement has not been amended and remains in full force and effect.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the Effective Date.

FLOTEK INDUSTRIES, INC.

By: _____

Name: John W. Chisholm

Title: President

Johnna Kokenge

AMENDMENT TO
EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (this “Amendment”) is entered into on May 19, 2011 (“Effective Date”), between Flotek Industries, Inc., a Delaware corporation (the “Company”), and Jesse “Jempy” Neyman (“Employee”).

WHEREAS, the Company and Employee entered into that certain Employment Agreement dated as of August 11, 2009 (the “Employment Agreement”); and

WHEREAS, the Company and Employee desire to amend and supplement the Employment Agreement as set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendment to Position Title. All references to “Chief Financial Officer” in Section 2(a) of the Employment Agreement shall be amended and replaced with “Executive Vice President, Finance”.

2. Amendment to Base Salary. The first sentence of Section 3(a) of the Employment Agreement is hereby amended and restated as follows:

“Employee’s annual base salary for the Employment Period shall be \$250,000, which effective as of May 31, 2011 shall be increased to \$270,000 (the “Base Salary”).”

3. Amendment to Target Bonus. Section 3(d) of the Employment Agreement is hereby amended and restated as follows:

“Employee shall be entitled to annual bonuses in accordance with the Management Incentive Plan of the Company, with a “Target Bonus” for purposes of such plan of 50% of Base Salary (a “Target Bonus”) for years 2009, 2010, and 2011.”

4. One-Time Payment. The Employment Agreement shall be amended to include the following as Section 3(h):

“Employee shall receive a one-time payment of \$2,922.96 on May 31, 2011.”

5. No Further Amendments. Except as set forth in this Amendment, the Employment Agreement has not been amended and remains in full force and effect.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the Effective Date.

FLOTEK INDUSTRIES, INC.

By: _____

Name: John W. Chisholm

Title: President

Jesse "Jemmy" Neyman

AMENDMENT TO
EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (this "Amendment") is entered into on May 19, 2011 ("Effective Date"), between Flotek Industries, Inc., a Delaware corporation (the "Company"), and Steve Reeves ("Employee").

WHEREAS, the Company and Employee entered into that certain Employment Agreement dated as of May 10, 2010 (the "Employment Agreement"); and

WHEREAS, the Company and Employee desire to amend and supplement the Employment Agreement as set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendment to Position Title. All references to "Executive Vice President, Operations, Business Development and Special Projects" in Section 2(a) of the Employment Agreement shall be amended and replaced with "Executive Vice President, Operations".

2. Amendment to Base Salary. The first sentence of Section 3(a) of the Employment Agreement is hereby amended and restated as follows:

"Employee's annual base salary for the Employment Period shall be \$275,000, which effective as of May 31, 2011 shall be increased to \$295,000 (the "Base Salary")."

3. Amendment to Target Bonus. Section 3(c) of the Employment Agreement is hereby amended and restated as follows:

"Employee shall be entitled to annual bonuses in accordance with the Management Incentive Plan of the Company, with a "Target Bonus" for purposes of such plan of 50% of Base Salary (a "Target Bonus") for years 2010 and 2011."

4. One-Time Payment. The Employment Agreement shall be amended to include the following as Section 3(g):

"Employee shall receive a one-time payment of \$2,922.96 on May 31, 2011."

5. No Further Amendments. Except as set forth in this Amendment, the Employment Agreement has not been amended and remains in full force and effect.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the Effective Date.

FLOTEK INDUSTRIES, INC.

By: _____

Name: John W. Chisholm

Title: President

Steve Reeves

AMENDMENT TO
SECOND AMENDED AND RESTATED SERVICE AGREEMENT

THIS AMENDMENT TO SECOND AMENDED AND RESTATED SERVICE AGREEMENT (this "Third Amendment") is entered into on May 19, 2011 ("Effective Date"), between Flotek Industries, Inc., a Delaware corporation (the "Company"), and Protechnics II, Inc. ("Protechnics").

WHEREAS, Protechnics and Chisholm Management, Inc. entered into that certain Service Agreement dated August 2009 with the Company (the "Original Service Agreement");

WHEREAS, Protechnics and the Company entered into that certain Amended and Restated Service Agreement dated April 2010, pursuant to which the Original Service Agreement was amended and restated effective as of December 1, 2009 (the "First Amendment");

WHEREAS, Protechnics and the Company entered into that certain Second Amended and Restated Service Agreement dated November 10, 2010, pursuant to which the Original Service Agreement and the First Amendment were amended and restated effective as of November 15, 2010 (the "Second Amendment"); and

WHEREAS, the Company entered into with John Chisholm effective November 15, 2010 that certain letter agreement providing for the employment of John Chisholm by the Company for certain limited purposes; and

WHEREAS, the Company and Protechnics desire to amend and supplement the Second Amendment as set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendment to Base Compensation. The first sentence of Section 4.1 of the Second Amendment is hereby amended and restated as follows:

"The Company shall pay to the Chisholm Companies, and the Chisholm Companies agrees to accept a monthly fee of \$42,000, which effective as of May 31, 2011 shall be increased to \$50,167, allocated among the Chisholm Companies as designated by Protechnics from time to time, payable on a weekly basis (the "Base Compensation")."

2. One-Time Payment. The Second Amendment shall be amended to include the following as Section 4.4:

"The Chisholm Companies shall receive a one-time payment of \$14,428.37 on May 31, 2011."

3. No Further Amendments. Except as set forth in this Third Amendment, the Second Amendment has not been amended and remains in full force and effect.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Third Amendment as of the Effective Date.

FLOTEK INDUSTRIES, INC.

By: _____

Name: Jesse E. Neyman

Title: EVP, Chief Financial Officer

PROTECHNICS II, INC.

By: _____

Name: John W. Chisholm

Title: President

FLOTEK INDUSTRIES, INC.
2010 LONG-TERM INCENTIVE PLAN

NONQUALIFIED STOCK OPTION AGREEMENT

1. **Grant of Nonqualified Stock Option.** Subject to the conditions described in this agreement (the "Award Agreement") and in the **Flotek Industries, Inc 2010 Long-Term Incentive Plan**, as amended from time to time (the "Plan"), Flotek Industries, Inc., a Delaware corporation (the "Company"), hereby agrees to grant to Steve Reeves ("Participant") the right and option (the "Option") to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate of 200,000 shares of Common Stock, subject to adjustment as set forth in the Plan.

2. **Nonqualified Stock Option Status:** The Option is intended to be a non-qualified stock option, and is not intended to be treated as an option that complies with Section 422 of the Internal Revenue Code of 1986, as amended.

3. **Grant Date:** April 8, 2011.

4. **Exercise Price:** The Exercise Price shall be \$9.19 per share of Common Stock covered by the Option, which has been determined to be no less than the FMV Per Share on the Grant Date.

5. **Vesting:**

(a) **Vesting Schedule.** Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, including Participant's continued employment/service with the Company through April 8, 2013, the Option shall vest and become exercisable on April 8, 2013.

(b) At any time, the portion of the Option which has become vested and exercisable as described in this Award Agreement is hereinafter referred to as the "Vested Portion."

(c) In the event of the occurrence of any of the following:

(i) Participant's Termination for a reason other than a reason that cause Vesting pursuant to Section 5(d) of this Agreement;

(ii) the Company's failure to achieve "Adjusted EBITDA" for 2011 which equals or exceeds the minimum amount required pursuant to the 2011 Management Incentive Plan of the Company for participants thereunder to receive any bonus whatsoever pursuant to the terms thereof; or

(iii) the disapproval of the Option by the "Required Lenders" pursuant to Section 5.14 of the Amended and Restated Credit Agreement dated as of March 31, 2010 among the Company, Whitebox Advisors LLC, as Administrative Agent, and the Lenders parties thereto, as amended, modified or restated,

the Option shall, to the extent not then vested, be canceled by the Company without consideration and the Vested Portion of the Option shall remain exercisable for the period set forth in Sections 6(a) or 6(b).

"Adjusted EBITDA" means the EBITDA of the Company, plus any amounts deducted in computing EBITDA with respect to stock compensation, financing transaction costs (whether paid in cash or not), and other noncash and/or nonrecurring charges not directly related to the ongoing operations of the Company. "EBITDA" means the sum of (a) the Company's net income after taxes as determined in accordance with GAAP, excluding, however, extraordinary items, including any net non-cash gain or loss arising from the sale, exchange, retirement or other disposition of capital assets (such term to include all fixed assets and all securities) other than in the ordinary course of business, and any write-up or write-down of assets, and the cumulative effect of any change in GAAP plus (b) to the extent deducted in determining the Company's net income, total cash interest expense and other fees and expenses incurred by the Company in connection with any debt whether paid or accrued, income taxes, depreciation, amortization and other non-cash charges. Specific determination of Adjusted EBITDA shall be based solely upon the judgment of the Audit Committee of the Company's Board of Directors upon recommendations received from the Company's Chief Accounting Officer.

(d) If not already forfeited pursuant to Section 5(c), the occurrence of any of the following events shall cause the portion of the Option which is not yet Vested to be considered immediately Vested: (i) a Change of Control, (ii) the death of Participant, (iii) a Termination by the Company which is not for Cause, (iv) a Termination by the Participant which is for Good Reason (as hereinafter defined), or (v) a Termination which is because of the Disability of Participant. For purposes hereof, "Good Reason" shall exist upon the occurrence of one of the following Company actions (unless the Participant consents in writing to such action(s)): (i) a material reduction of the compensation and benefits to which the Participant was entitled immediately prior to such reduction, (ii) a material reduction in the duties, authority or responsibilities relative to the duties, authority or responsibilities of the Participant as in effect immediately prior to such reduction, or (iii) the relocation of Participant to a facility or a location more than fifty (50) miles from Participant's then present location; provided, however, that (A) Participant must provide the Company with written notice of the occurrence of such action(s) within 60 days of the initial occurrence of such action(s) and of Participant's intent to terminate the term of this Agreement based on such action(s) and (B) the Company will have 30 days from the date that such written notice is provided by the Participant to cure such action(s). For purposes hereof, "Change of Control" shall have the meaning given said term in the Plan, and shall also mean John Chisholm no longer serving as the President of the Company.

6. Exercise of Option.

(a) Period of Exercise. Subject to the provisions of the Plan and this Award Agreement, the Participant may exercise all or any part of the Vested Portion of the Option at any time prior to the earliest to occur of:

- (i) the sixth anniversary of the Grant Date;
- (ii) the second anniversary of the date of the Participant's Termination; or
- (iii) the date of Participant's Termination for a reason other than a reason that causes Vesting under Section 5(d) of this Agreement.

(b) Extensions. Except with respect to expiration events described in clause (v) above, if the Participant is prohibited from exercising the Vested Portion of an Option immediately prior to the expiration thereof due to any applicable federal, state, local or foreign legal prohibitions, then the expiration of such Vested Portion of an Option will be delayed until 5 days after the expiration of such legal prohibition.

(c) Method of Exercise.

(i) Subject to Section 6(a) of this Award Agreement and the Plan, the Vested Portion of the Option may be exercised by delivering to the Company at its principal office written notice of intent to so exercise; provided that, the Option may be exercised with respect to whole shares of Common Stock only. Such notice shall specify the number of shares of Common Stock for which the Option is being exercised and shall be accompanied by payment in full of the Exercise Price (and unless other arrangements have been made with the Committee, any required withholding taxes). The payment of the Exercise Price shall be made by Participant (i) in cash or by certified check payable and acceptable to the Company), or (ii) subject to such conditions and requirements as the Committee may specify, at the written request of Participant, by the Company's withholding from shares otherwise deliverable pursuant to the exercise of the Option shares of Common Stock having an aggregate Fair Market Value as of the date of exercise that is not greater than the full Exercise Price for the shares with respect to which the Option is being exercised and by paying any remaining amount of the Exercise Price as provided in (i) above.

(ii) No Participant shall have any rights to dividends or other rights of a stockholder with respect to shares of Common Stock subject to an Option until Participant has given written notice of exercise of the Option, paid in full for such shares and, if applicable, has satisfied any other conditions imposed by the Committee pursuant to the Plan.

(iii) Notwithstanding any other provision of the Plan or this Award Agreement to the contrary, the Option may not be exercised prior to the completion of any registration or qualification of the Option or the shares under applicable state and federal securities or other laws, or under any ruling or regulation of any governmental body or national securities exchange that the Committee shall in its sole discretion determine to be necessary or advisable.

(iv) Upon the Company's determination that the Option has been validly exercised as to any of the shares, the Company shall issue certificates in the Participant's name for such shares or if the shares are held in book entry form, then the Company will make such entry that will reflect the Participant's ownership of such shares. However, the Company shall not be liable to the Participant for damages relating to any delays in issuing the certificates to him, any loss of the certificates, or any mistakes or errors in the issuance of the certificates or in the certificates themselves.

(v) In the event of the Participant's death, the Vested Portion of the Option shall remain exercisable by the Participant's executor or administrator, or the person or persons to whom the Participant's rights under this Award Agreement shall pass by will or by the laws of descent and distribution as the case may be, to the extent set forth in Section 6(a). Any heir or legatee of Participant shall take rights herein granted subject to the terms and conditions hereof.

7. **Reorganization of the Company.** The existence of this Award Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; any merger or consolidation of the Company; any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting shares of Common Stock, the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

8. **Certain Restrictions.** By executing this Award Agreement, Participant acknowledges that he will enter into such written representations, warranties and agreements and execute such documents as the Company may reasonably request in order to comply with the securities law or any other applicable laws, rules or regulations, or with this Award Agreement or the terms of the Plan.

9. **Amendment and Termination.** This Award Agreement or the Plan may be amended or terminated in accordance with the terms of the Plan and with the express written consent of Participant.

10. **Taxes and Withholdings.** The Participant may be required to pay to the Company or any Affiliate and the Company or its Affiliates shall have the right and are hereby authorized to withhold any applicable withholding taxes in respect of the Option, its exercise, or any payment or transfer under or with respect to the Option and to take such other action as may be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes.

11. **No Guarantee of Tax Consequences.** The Company, Board and Committee make no commitment or guarantee to Participant that any federal, state or local tax treatment will apply or be available to any person eligible for benefits under this Award Agreement and assumes no liability whatsoever for the tax consequences to Participant.

12. **Severability.** In the event that any provision of this Award Agreement is, becomes or is deemed to be illegal, invalid, or unenforceable for any reason, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board or the Committee, such provision shall be construed or deemed amended as necessary to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board or the Committee, materially altering the intent of the Plan or this Award Agreement, such provision shall be stricken as to such jurisdiction, the Participant or this Award Agreement, and the remainder of this Award Agreement shall remain in full force and effect.

13. **Terms of the Plan Control.** This Award Agreement and the underlying Award are made pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, the terms of the Plan, as amended from time to time and interpreted and applied by the Committee, shall govern and take precedence. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan, the terms of which are incorporated herein by reference.

14. **Governing Law.** This Award Agreement shall be construed in accordance with (excluding any conflict or choice of law provisions of) the laws of the State of Delaware to the extent federal law does not supersede and preempt Delaware law.

15. **Consent to Electronic Delivery; Electronic Signature.** Except as otherwise prohibited by law, in lieu of receiving documents in paper format, Participant agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company may be required to deliver (including, but not limited to, prospectuses, prospectuses supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered by the Company. Electronic delivery may be via a Company electronic mail system or by reference to a location on a Company intranet to which Participant has access. Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may be required to deliver, and agrees that his electronic signature is the same as, and shall have the same force and effect as, his manual signature.

16. **Transferability.** The Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the

Option to heirs or legatees of the Participant shall be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof. During the Participant's lifetime, the Option is exercisable only by the Participant.

[signature blanks follow]

COMPANY:

Flotek Industries, Inc.

By: _____

Name Printed: _____

Title: _____

Date: _____

PARTICIPANT:

Steve Reeves

Address:

Date: _____

FLOTEK INDUSTRIES, INC.
2010 LONG-TERM INCENTIVE PLAN

NONQUALIFIED STOCK OPTION AGREEMENT

1. **Grant of Nonqualified Stock Option.** Subject to the conditions described in this agreement (the "Award Agreement") and in the **Flotek Industries, Inc 2010 Long-Term Incentive Plan**, as amended from time to time (the "Plan"), Flotek Industries, Inc., a Delaware corporation (the "Company"), hereby agrees to grant to Jesse "Jempy" Neyman ("Participant") the right and option (the "Option") to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate of 100,000 shares of Common Stock, subject to adjustment as set forth in the Plan.

2. **Nonqualified Stock Option Status:** The Option is intended to be a non-qualified stock option, and is not intended to be treated as an option that complies with Section 422 of the Internal Revenue Code of 1986, as amended.

3. **Grant Date:** April 8, 2011.

4. **Exercise Price:** The Exercise Price shall be \$9.19 per share of Common Stock covered by the Option, which has been determined to be no less than the FMV Per Share on the Grant Date.

5. **Vesting:**

(a) **Vesting Schedule.** Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, including Participant's continued employment/service with the Company through April 8, 2013, the Option shall vest and become exercisable on April 8, 2013.

(b) At any time, the portion of the Option which has become vested and exercisable as described in this Award Agreement is hereinafter referred to as the "Vested Portion."

(c) In the event of the occurrence of any of the following:

(i) Participant's Termination for a reason other than a reason that cause Vesting pursuant to Section 5(d) of this Agreement;

(ii) the Company's failure to achieve "Adjusted EBITDA" for 2011 which equals or exceeds the minimum amount required pursuant to the 2011 Management Incentive Plan of the Company for participants thereunder to receive any bonus whatsoever pursuant to the terms thereof; or

(iii) the disapproval of the Option by the "Required Lenders" pursuant to Section 5.14 of the Amended and Restated Credit Agreement dated as of March 31, 2010 among the Company, Whitebox Advisors LLC, as Administrative Agent, and the Lenders parties thereto, as amended, modified or restated,

the Option shall, to the extent not then vested, be canceled by the Company without consideration and the Vested Portion of the Option shall remain exercisable for the period set forth in Sections 6(a) or 6(b).

"Adjusted EBITDA" means the EBITDA of the Company, plus any amounts deducted in computing EBITDA with respect to stock compensation, financing transaction costs (whether paid in cash or not), and other noncash and/or nonrecurring charges not directly related to the ongoing operations of the Company. "EBITDA" means the sum of (a) the Company's net income after taxes as determined in accordance with GAAP, excluding, however, extraordinary items, including any net non-cash gain or loss arising from the sale, exchange, retirement or other disposition of capital assets (such term to include all fixed assets and all securities) other than in the ordinary course of business, and any write-up or write-down of assets, and the cumulative effect of any change in GAAP plus (b) to the extent deducted in determining the Company's net income, total cash interest expense and other fees and expenses incurred by the Company in connection with any debt whether paid or accrued, income taxes, depreciation, amortization and other non-cash charges. Specific determination of Adjusted EBITDA shall be based solely upon the judgment of the Audit Committee of the Company's Board of Directors upon recommendations received from the Company's Chief Accounting Officer.

(d) If not already forfeited pursuant to Section 5(c), the occurrence of any of the following events shall cause the portion of the Option which is not yet Vested to be considered immediately Vested: (i) a Change of Control, (ii) the death of Participant, (iii) a Termination by the Company which is not for Cause, (iv) a Termination by the Participant which is for Good Reason (as hereinafter defined), or (v) a Termination which is because of the Disability of Participant. For purposes hereof, "Good Reason" shall exist upon the occurrence of one of the following Company actions (unless the Participant consents in writing to such action(s)): (i) a material reduction of the compensation and benefits to which the Participant was entitled immediately prior to such reduction, (ii) a material reduction in the duties, authority or responsibilities relative to the duties, authority or responsibilities of the Participant as in effect immediately prior to such reduction, or (iii) the relocation of Participant to a facility or a location more than fifty (50) miles from Participant's then present location; provided, however, that (A) Participant must provide the Company with written notice of the occurrence of such action(s) within 60 days of the initial occurrence of such action(s) and of Participant's intent to terminate the term of this Agreement based on such action(s) and (B) the Company will have 30 days from the date that such written notice is provided by the Participant to cure such action(s). For purposes hereof, "Change of Control" shall have the meaning given said term in the Plan, and shall also mean John Chisholm no longer serving as the President of the Company.

6. Exercise of Option.

(a) Period of Exercise. Subject to the provisions of the Plan and this Award Agreement, the Participant may exercise all or any part of the Vested Portion of the Option at any time prior to the earliest to occur of:

- (i) the sixth anniversary of the Grant Date;
- (ii) the second anniversary of the date of the Participant's Termination; or
- (iii) the date of Participant's Termination for a reason other than a reason that causes Vesting under Section 5(d) of this Agreement.

(b) Extensions. Except with respect to expiration events described in clause (v) above, if the Participant is prohibited from exercising the Vested Portion of an Option immediately prior to the expiration thereof due to any applicable federal, state, local or foreign legal prohibitions, then the expiration of such Vested Portion of an Option will be delayed until 5 days after the expiration of such legal prohibition.

(c) Method of Exercise.

(i) Subject to Section 6(a) of this Award Agreement and the Plan, the Vested Portion of the Option may be exercised by delivering to the Company at its principal office written notice of intent to so exercise; provided that, the Option may be exercised with respect to whole shares of Common Stock only. Such notice shall specify the number of shares of Common Stock for which the Option is being exercised and shall be accompanied by payment in full of the Exercise Price (and unless other arrangements have been made with the Committee, any required withholding taxes). The payment of the Exercise Price shall be made by Participant (i) in cash or by certified check payable and acceptable to the Company), or

(ii) subject to such conditions and requirements as the Committee may specify, at the written request of Participant, by the Company's withholding from shares otherwise deliverable pursuant to the exercise of the Option shares of Common Stock having an aggregate Fair Market Value as of the date of exercise that is not greater than the full Exercise Price for the shares with respect to which the Option is being exercised and by paying any remaining amount of the Exercise Price as provided in (i) above.

(ii) No Participant shall have any rights to dividends or other rights of a stockholder with respect to shares of Common Stock subject to an Option until Participant has given written notice of exercise of the Option, paid in full for such shares and, if applicable, has satisfied any other conditions imposed by the Committee pursuant to the Plan.

(iii) Notwithstanding any other provision of the Plan or this Award Agreement to the contrary, the Option may not be exercised prior to the completion of any registration or qualification of the Option or the shares under applicable state and federal securities or other laws, or under any ruling or regulation of any governmental body or national securities exchange that the Committee shall in its sole discretion determine to be necessary or advisable.

(iv) Upon the Company's determination that the Option has been validly exercised as to any of the shares, the Company shall issue certificates in the Participant's name for such shares or if the shares are held in book entry form, then the Company will make such entry that will reflect the Participant's ownership of such shares. However, the Company shall not be liable to the Participant for damages relating to any delays in issuing the certificates to him, any loss of the certificates, or any mistakes or errors in the issuance of the certificates or in the certificates themselves.

(v) In the event of the Participant's death, the Vested Portion of the Option shall remain exercisable by the Participant's executor or administrator, or the person or persons to whom the Participant's rights under this Award Agreement shall pass by will or by the laws of descent and distribution as the case may be, to the extent set forth in Section 6(a). Any heir or legatee of Participant shall take rights herein granted subject to the terms and conditions hereof.

7. **Reorganization of the Company.** The existence of this Award Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; any merger or consolidation of the Company; any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting shares of Common Stock, the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

8. **Certain Restrictions.** By executing this Award Agreement, Participant acknowledges that he will enter into such written representations, warranties and agreements and execute such documents as the Company may reasonably request in order to comply with the securities law or any other applicable laws, rules or regulations, or with this Award Agreement or the terms of the Plan.

9. **Amendment and Termination.** This Award Agreement or the Plan may be amended or terminated in accordance with the terms of the Plan and with the express written consent of Participant.

10. **Taxes and Withholdings.** The Participant may be required to pay to the Company or any Affiliate and the Company or its Affiliates shall have the right and are hereby authorized to withhold any applicable withholding taxes in respect of the Option, its exercise, or any payment or transfer under or with respect to the Option and to take such other action as may be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes.

11. **No Guarantee of Tax Consequences.** The Company, Board and Committee make no commitment or guarantee to Participant that any federal, state or local tax treatment will apply or be available to any person eligible for benefits under this Award Agreement and assumes no liability whatsoever for the tax consequences to Participant.

12. **Severability.** In the event that any provision of this Award Agreement is, becomes or is deemed to be illegal, invalid, or unenforceable for any reason, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board or the Committee, such provision shall be construed or deemed amended as necessary to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board or the Committee, materially altering the intent of the Plan or this Award Agreement, such provision shall be stricken as to such jurisdiction, the Participant or this Award Agreement, and the remainder of this Award Agreement shall remain in full force and effect.

13. **Terms of the Plan Control.** This Award Agreement and the underlying Award are made pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, the terms of the Plan, as amended from time to time and interpreted and applied by the Committee, shall govern and take precedence. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan, the terms of which are incorporated herein by reference.

14. **Governing Law.** This Award Agreement shall be construed in accordance with (excluding any conflict or choice of law provisions of) the laws of the State of Delaware to the extent federal law does not supersede and preempt Delaware law.

15. **Consent to Electronic Delivery; Electronic Signature.** Except as otherwise prohibited by law, in lieu of receiving documents in paper format, Participant agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company may be required to deliver (including, but not limited to, prospectuses, prospectuses supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered by the Company. Electronic delivery may be via a Company electronic mail system or by reference to a location on a Company intranet to which Participant has access. Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may be required to deliver, and agrees that his electronic signature is the same as, and shall have the same force and effect as, his manual signature.

16. **Transferability.** The Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the

Option to heirs or legatees of the Participant shall be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof. During the Participant's lifetime, the Option is exercisable only by the Participant.

[signature blanks follow]

COMPANY:

Flotek Industries, Inc.

By: _____

Name Printed: _____

Title: _____

Date: _____

PARTICIPANT:

Jesse "Jempy" Neyman

Address:

Date: _____

FLOTEK INDUSTRIES, INC.
2010 LONG-TERM INCENTIVE PLAN

NONQUALIFIED STOCK OPTION AGREEMENT

1. **Grant of Nonqualified Stock Option.** Subject to the conditions described in this agreement (the “Award Agreement”) and in the **Flotek Industries, Inc 2010 Long-Term Incentive Plan**, as amended from time to time (the “Plan”), Flotek Industries, Inc., a Delaware corporation (the “Company”), hereby agrees to grant to John W. Chisholm (“Participant”) the right and option (the “Option”) to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate of 400,000 shares of Common Stock, subject to adjustment as set forth in the Plan.

2. **Nonqualified Stock Option Status:** The Option is intended to be a non-qualified stock option, and is not intended to be treated as an option that complies with Section 422 of the Internal Revenue Code of 1986, as amended.

3. **Grant Date:** April 8, 2011.

4. **Exercise Price:** The Exercise Price shall be \$9.19 per share of Common Stock covered by the Option, which has been determined to be no less than the FMV Per Share on the Grant Date.

5. **Vesting:**

(a) **Vesting Schedule.** Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, including Participant’s continued employment/service with the Company through April 8, 2013, the Option shall vest and become exercisable on April 8, 2013.

(b) At any time, the portion of the Option which has become vested and exercisable as described in this Award Agreement is hereinafter referred to as the “Vested Portion.”

(c) In the event of the occurrence of any of the following:

(i) Participant’s Termination for a reason other than a reason that cause Vesting pursuant to Section 5(d) of this Agreement;

(ii) the Company’s failure to achieve “Adjusted EBITDA” for 2011 which equals or exceeds the minimum amount required pursuant to the 2011 Management Incentive Plan of the Company for participants thereunder to receive any bonus whatsoever pursuant to the terms thereof; or

(iii) the disapproval of the Option by the "Required Lenders" pursuant to Section 5.14 of the Amended and Restated Credit Agreement dated as of March 31, 2010 among the Company, Whitebox Advisors LLC, as Administrative Agent, and the Lenders parties thereto, as amended, modified or restated,

the Option shall, to the extent not then vested, be canceled by the Company without consideration and the Vested Portion of the Option shall remain exercisable for the period set forth in Sections 6(a) or 6(b).

"Adjusted EBITDA" means the EBITDA of the Company, plus any amounts deducted in computing EBITDA with respect to stock compensation, financing transaction costs (whether paid in cash or not), and other noncash and/or nonrecurring charges not directly related to the ongoing operations of the Company. "EBITDA" means the sum of (a) the Company's net income after taxes as determined in accordance with GAAP, excluding, however, extraordinary items, including any net non-cash gain or loss arising from the sale, exchange, retirement or other disposition of capital assets (such term to include all fixed assets and all securities) other than in the ordinary course of business, and any write-up or write-down of assets, and the cumulative effect of any change in GAAP plus (b) to the extent deducted in determining the Company's net income, total cash interest expense and other fees and expenses incurred by the Company in connection with any debt whether paid or accrued, income taxes, depreciation, amortization and other non-cash charges. Specific determination of Adjusted EBITDA shall be based solely upon the judgment of the Audit Committee of the Company's Board of Directors upon recommendations received from the Company's Chief Accounting Officer.

(d) If not already forfeited pursuant to Section 5(c), the occurrence of any of the following events shall cause the portion of the Option which is not yet Vested to be considered immediately Vested: (i) a Change of Control, (ii) the death of Participant, (iii) a Termination by the Company which is not for Cause, (iv) a Termination by the Participant which is for Good Reason (as hereinafter defined), or (v) a Termination which is because of the Disability of Participant. For purposes hereof, "Good Reason" shall exist upon the occurrence of one of the following Company actions (unless the Participant consents in writing to such action(s)): (i) a material reduction of the compensation and benefits to which the Participant was entitled immediately prior to such reduction, (ii) a material reduction in the duties, authority or responsibilities relative to the duties, authority or responsibilities of the Participant as in effect immediately prior to such reduction, or (iii) the relocation of Participant to a facility or a location more than fifty (50) miles from Participant's then present location; provided, however, that (A) Participant must provide the Company with written notice of the occurrence of such action(s) within 60 days of the initial occurrence of such action(s) and of Participant's intent to terminate the term of this Agreement based on such action(s) and (B) the Company will have 30 days from the date that such written notice is provided by the Participant to cure such action(s).

6. Exercise of Option.

(a) Period of Exercise. Subject to the provisions of the Plan and this Award Agreement, the Participant may exercise all or any part of the Vested Portion of the Option at any time prior to the earliest to occur of:

- (i) the sixth anniversary of the Grant Date;
- (ii) the second anniversary of the date of the Participant's Termination; or
- (iii) the date of Participant's Termination for a reason other than a reason that causes Vesting under Section 5(d) of this Agreement.

(b) Extensions. Except with respect to expiration events described in clause (v) above, if the Participant is prohibited from exercising the Vested Portion of an Option immediately prior to the expiration thereof due to any applicable federal, state, local or foreign legal prohibitions, then the expiration of such Vested Portion of an Option will be delayed until 5 days after the expiration of such legal prohibition.

(c) Method of Exercise.

(i) Subject to Section 6(a) of this Award Agreement and the Plan, the Vested Portion of the Option may be exercised by delivering to the Company at its principal office written notice of intent to so exercise; provided that, the Option may be exercised with respect to whole shares of Common Stock only. Such notice shall specify the number of shares of Common Stock for which the Option is being exercised and shall be accompanied by payment in full of the Exercise Price (and unless other arrangements have been made with the Committee, any required withholding taxes). The payment of the Exercise Price shall be made by Participant (i) in cash or by certified check payable and acceptable to the Company), or

(ii) subject to such conditions and requirements as the Committee may specify, at the written request of Participant, by the Company's withholding from shares otherwise deliverable pursuant to the exercise of the Option shares of Common Stock having an aggregate Fair Market Value as of the date of exercise that is not greater than the full Exercise Price for the shares with respect to which the Option is being exercised and by paying any remaining amount of the Exercise Price as provided in (i) above.

(ii) No Participant shall have any rights to dividends or other rights of a stockholder with respect to shares of Common Stock subject to an Option until Participant has given written notice of exercise of the Option, paid in full for such shares and, if applicable, has satisfied any other conditions imposed by the Committee pursuant to the Plan.

(iii) Notwithstanding any other provision of the Plan or this Award Agreement to the contrary, the Option may not be exercised prior to the completion of any registration or qualification of the Option or the shares under

applicable state and federal securities or other laws, or under any ruling or regulation of any governmental body or national securities exchange that the Committee shall in its sole discretion determine to be necessary or advisable.

(iv) Upon the Company's determination that the Option has been validly exercised as to any of the shares, the Company shall issue certificates in the Participant's name for such shares or if the shares are held in book entry form, then the Company will make such entry that will reflect the Participant's ownership of such shares. However, the Company shall not be liable to the Participant for damages relating to any delays in issuing the certificates to him, any loss of the certificates, or any mistakes or errors in the issuance of the certificates or in the certificates themselves.

(v) In the event of the Participant's death, the Vested Portion of the Option shall remain exercisable by the Participant's executor or administrator, or the person or persons to whom the Participant's rights under this Award Agreement shall pass by will or by the laws of descent and distribution as the case may be, to the extent set forth in Section 6(a). Any heir or legatee of Participant shall take rights herein granted subject to the terms and conditions hereof.

7. **Reorganization of the Company.** The existence of this Award Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; any merger or consolidation of the Company; any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting shares of Common Stock, the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

8. **Certain Restrictions.** By executing this Award Agreement, Participant acknowledges that he will enter into such written representations, warranties and agreements and execute such documents as the Company may reasonably request in order to comply with the securities law or any other applicable laws, rules or regulations, or with this Award Agreement or the terms of the Plan.

9. **Amendment and Termination.** This Award Agreement or the Plan may be amended or terminated in accordance with the terms of the Plan and with the express written consent of Participant.

10. **Taxes and Withholdings.** The Participant may be required to pay to the Company or any Affiliate and the Company or its Affiliates shall have the right and are hereby authorized to withhold any applicable withholding taxes in respect of the Option, its exercise, or any payment or transfer under or with respect to the Option and to take such other action as may be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes.

11. **No Guarantee of Tax Consequences.** The Company, Board and Committee make no commitment or guarantee to Participant that any federal, state or local tax treatment will apply or be available to any person eligible for benefits under this Award Agreement and assumes no liability whatsoever for the tax consequences to Participant.

12. **Severability.** In the event that any provision of this Award Agreement is, becomes or is deemed to be illegal, invalid, or unenforceable for any reason, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board or the Committee, such provision shall be construed or deemed amended as necessary to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board or the Committee, materially altering the intent of the Plan or this Award Agreement, such provision shall be stricken as to such jurisdiction, the Participant or this Award Agreement, and the remainder of this Award Agreement shall remain in full force and effect.

13. **Terms of the Plan Control.** This Award Agreement and the underlying Award are made pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, the terms of the Plan, as amended from time to time and interpreted and applied by the Committee, shall govern and take precedence. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan, the terms of which are incorporated herein by reference.

14. **Governing Law.** This Award Agreement shall be construed in accordance with (excluding any conflict or choice of law provisions of) the laws of the State of Delaware to the extent federal law does not supersede and preempt Delaware law.

15. **Consent to Electronic Delivery; Electronic Signature.** Except as otherwise prohibited by law, in lieu of receiving documents in paper format, Participant agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company may be required to deliver (including, but not limited to, prospectuses, prospectuses supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered by the Company. Electronic delivery may be via a Company electronic mail system or by reference to a location on a Company intranet to which Participant has access. Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may be required to deliver, and agrees that his electronic signature is the same as, and shall have the same force and effect as, his manual signature.

16. **Transferability.** The Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Option to heirs or legatees of the Participant shall be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof. During the Participant's lifetime, the Option is exercisable only by the Participant.

[signature blanks follow]

COMPANY:

Flotek Industries, Inc.

By: _____

Name Printed: _____

Title: _____

Date: _____

PARTICIPANT:

John W. Chisholm

Address:

Date: _____

FLOTEK INDUSTRIES, INC.
2010 LONG-TERM INCENTIVE PLAN

NONQUALIFIED STOCK OPTION AGREEMENT

1. **Grant of Nonqualified Stock Option.** Subject to the conditions described in this agreement (the “Award Agreement”) and in the **Flotek Industries, Inc 2010 Long-Term Incentive Plan**, as amended from time to time (the “Plan”), Flotek Industries, Inc., a Delaware corporation (the “Company”), hereby agrees to grant to Johnna Kokenge (“Participant”) the right and option (the “Option”) to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate of 200,000 shares of Common Stock, subject to adjustment as set forth in the Plan.

2. **Nonqualified Stock Option Status:** The Option is intended to be a non-qualified stock option, and is not intended to be treated as an option that complies with Section 422 of the Internal Revenue Code of 1986, as amended.

3. **Grant Date:** April 8, 2011.

4. **Exercise Price:** The Exercise Price shall be \$9.19 per share of Common Stock covered by the Option, which has been determined to be no less than the FMV Per Share on the Grant Date.

5. **Vesting:**

(a) **Vesting Schedule.** Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, including Participant’s continued employment/service with the Company through April 8, 2013, the Option shall vest and become exercisable on April 8, 2013.

(b) At any time, the portion of the Option which has become vested and exercisable as described in this Award Agreement is hereinafter referred to as the “Vested Portion.”

(c) In the event of the occurrence of any of the following:

(i) Participant’s Termination for a reason other than a reason that cause Vesting pursuant to Section 5(d) of this Agreement;

(ii) the Company’s failure to achieve “Adjusted EBITDA” for 2011 which equals or exceeds the minimum amount required pursuant to the 2011 Management Incentive Plan of the Company for participants thereunder to receive any bonus whatsoever pursuant to the terms thereof; or

(iii) the disapproval of the Option by the "Required Lenders" pursuant to Section 5.14 of the Amended and Restated Credit Agreement dated as of March 31, 2010 among the Company, Whitebox Advisors LLC, as Administrative Agent, and the Lenders parties thereto, as amended, modified or restated,

the Option shall, to the extent not then vested, be canceled by the Company without consideration and the Vested Portion of the Option shall remain exercisable for the period set forth in Sections 6(a) or 6(b).

"Adjusted EBITDA" means the EBITDA of the Company, plus any amounts deducted in computing EBITDA with respect to stock compensation, financing transaction costs (whether paid in cash or not), and other noncash and/or nonrecurring charges not directly related to the ongoing operations of the Company. "EBITDA" means the sum of (a) the Company's net income after taxes as determined in accordance with GAAP, excluding, however, extraordinary items, including any net non-cash gain or loss arising from the sale, exchange, retirement or other disposition of capital assets (such term to include all fixed assets and all securities) other than in the ordinary course of business, and any write-up or write-down of assets, and the cumulative effect of any change in GAAP plus (b) to the extent deducted in determining the Company's net income, total cash interest expense and other fees and expenses incurred by the Company in connection with any debt whether paid or accrued, income taxes, depreciation, amortization and other non-cash charges. Specific determination of Adjusted EBITDA shall be based solely upon the judgment of the Audit Committee of the Company's Board of Directors upon recommendations received from the Company's Chief Accounting Officer.

(d) If not already forfeited pursuant to Section 5(c), the occurrence of any of the following events shall cause the portion of the Option which is not yet Vested to be considered immediately Vested: (i) a Change of Control, (ii) the death of Participant, (iii) a Termination by the Company which is not for Cause, (iv) a Termination by the Participant which is for Good Reason (as hereinafter defined), or (v) a Termination which is because of the Disability of Participant. For purposes hereof, "Good Reason" shall exist upon the occurrence of one of the following Company actions (unless the Participant consents in writing to such action(s)): (i) a material reduction of the compensation and benefits to which the Participant was entitled immediately prior to such reduction, (ii) a material reduction in the duties, authority or responsibilities relative to the duties, authority or responsibilities of the Participant as in effect immediately prior to such reduction, or (iii) the relocation of Participant to a facility or a location more than fifty (50) miles from Participant's then present location; provided, however, that (A) Participant must provide the Company with written notice of the occurrence of such action(s) within 60 days of the initial occurrence of such action(s) and of Participant's intent to terminate the term of this Agreement based on such action(s) and (B) the Company will have 30 days from the date that such written notice is provided by the Participant to cure such action(s). For purposes hereof, "Change of Control" shall have the meaning given said term in the Plan, and shall also mean John Chisholm no longer serving as the President of the Company.

6. Exercise of Option.

(a) Period of Exercise. Subject to the provisions of the Plan and this Award Agreement, the Participant may exercise all or any part of the Vested Portion of the Option at any time prior to the earliest to occur of:

- (i) the sixth anniversary of the Grant Date;
- (ii) the second anniversary of the date of the Participant's Termination; or
- (iii) the date of Participant's Termination for a reason other than a reason that causes Vesting under Section 5(d) of this Agreement.

(b) Extensions. Except with respect to expiration events described in clause (v) above, if the Participant is prohibited from exercising the Vested Portion of an Option immediately prior to the expiration thereof due to any applicable federal, state, local or foreign legal prohibitions, then the expiration of such Vested Portion of an Option will be delayed until 5 days after the expiration of such legal prohibition.

(c) Method of Exercise.

(i) Subject to Section 6(a) of this Award Agreement and the Plan, the Vested Portion of the Option may be exercised by delivering to the Company at its principal office written notice of intent to so exercise; provided that, the Option may be exercised with respect to whole shares of Common Stock only. Such notice shall specify the number of shares of Common Stock for which the Option is being exercised and shall be accompanied by payment in full of the Exercise Price (and unless other arrangements have been made with the Committee, any required withholding taxes). The payment of the Exercise Price shall be made by Participant (i) in cash or by certified check payable and acceptable to the Company), or

(ii) subject to such conditions and requirements as the Committee may specify, at the written request of Participant, by the Company's withholding from shares otherwise deliverable pursuant to the exercise of the Option shares of Common Stock having an aggregate Fair Market Value as of the date of exercise that is not greater than the full Exercise Price for the shares with respect to which the Option is being exercised and by paying any remaining amount of the Exercise Price as provided in (i) above.

(ii) No Participant shall have any rights to dividends or other rights of a stockholder with respect to shares of Common Stock subject to an Option until Participant has given written notice of exercise of the Option, paid in full for such shares and, if applicable, has satisfied any other conditions imposed by the Committee pursuant to the Plan.

(iii) Notwithstanding any other provision of the Plan or this Award Agreement to the contrary, the Option may not be exercised prior to the completion of any registration or qualification of the Option or the shares under applicable state and federal securities or other laws, or under any ruling or regulation of any governmental body or national securities exchange that the Committee shall in its sole discretion determine to be necessary or advisable.

(iv) Upon the Company's determination that the Option has been validly exercised as to any of the shares, the Company shall issue certificates in the Participant's name for such shares or if the shares are held in book entry form, then the Company will make such entry that will reflect the Participant's ownership of such shares. However, the Company shall not be liable to the Participant for damages relating to any delays in issuing the certificates to him, any loss of the certificates, or any mistakes or errors in the issuance of the certificates or in the certificates themselves.

(v) In the event of the Participant's death, the Vested Portion of the Option shall remain exercisable by the Participant's executor or administrator, or the person or persons to whom the Participant's rights under this Award Agreement shall pass by will or by the laws of descent and distribution as the case may be, to the extent set forth in Section 6(a). Any heir or legatee of Participant shall take rights herein granted subject to the terms and conditions hereof.

7. **Reorganization of the Company.** The existence of this Award Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; any merger or consolidation of the Company; any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting shares of Common Stock, the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

8. **Certain Restrictions.** By executing this Award Agreement, Participant acknowledges that he will enter into such written representations, warranties and agreements and execute such documents as the Company may reasonably request in order to comply with the securities law or any other applicable laws, rules or regulations, or with this Award Agreement or the terms of the Plan.

9. **Amendment and Termination.** This Award Agreement or the Plan may be amended or terminated in accordance with the terms of the Plan and with the express written consent of Participant.

10. **Taxes and Withholdings.** The Participant may be required to pay to the Company or any Affiliate and the Company or its Affiliates shall have the right and are hereby authorized to withhold any applicable withholding taxes in respect of the Option, its exercise, or any payment or transfer under or with respect to the Option and to take such other action as may be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes.

11. **No Guarantee of Tax Consequences.** The Company, Board and Committee make no commitment or guarantee to Participant that any federal, state or local tax treatment will apply or be available to any person eligible for benefits under this Award Agreement and assumes no liability whatsoever for the tax consequences to Participant.

12. **Severability.** In the event that any provision of this Award Agreement is, becomes or is deemed to be illegal, invalid, or unenforceable for any reason, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board or the Committee, such provision shall be construed or deemed amended as necessary to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board or the Committee, materially altering the intent of the Plan or this Award Agreement, such provision shall be stricken as to such jurisdiction, the Participant or this Award Agreement, and the remainder of this Award Agreement shall remain in full force and effect.

13. **Terms of the Plan Control.** This Award Agreement and the underlying Award are made pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, the terms of the Plan, as amended from time to time and interpreted and applied by the Committee, shall govern and take precedence. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan, the terms of which are incorporated herein by reference.

14. **Governing Law.** This Award Agreement shall be construed in accordance with (excluding any conflict or choice of law provisions of) the laws of the State of Delaware to the extent federal law does not supersede and preempt Delaware law.

15. **Consent to Electronic Delivery; Electronic Signature.** Except as otherwise prohibited by law, in lieu of receiving documents in paper format, Participant agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company may be required to deliver (including, but not limited to, prospectuses, prospectuses supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered by the Company. Electronic delivery may be via a Company electronic mail system or by reference to a location on a Company intranet to which Participant has access. Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may be required to deliver, and agrees that his electronic signature is the same as, and shall have the same force and effect as, his manual signature.

16. **Transferability.** The Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the

Option to heirs or legatees of the Participant shall be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof. During the Participant's lifetime, the Option is exercisable only by the Participant.

[signature blanks follow]

COMPANY:

Flotek Industries, Inc.

By: _____
Name Printed: _____
Title: _____
Date: _____

PARTICIPANT:

Johnna Kokenge

Address:

Date: _____

**FLOTEK INDUSTRIES, INC.
2010 LONG-TERM INCENTIVE PLAN
RESTRICTED STOCK AGREEMENT**

1. Grant of Restricted Stock. Subject to the conditions described in this agreement (the "Award Agreement") and in the **Flotek Industries, Inc 2010 Long-Term Incentive Plan**, as amended from time to time (the "Plan"), Flotek Industries, Inc., a Delaware corporation (the "Company"), hereby agrees to grant to Steve Reeves ("Participant") shares of "Restricted Stock" of the Company.

2. Number of Shares of Restricted Stock Granted. 8,656 shares of Restricted Stock (common stock of the Company, \$0.0001 par value per share).

3. Grant Date. June 3, 2011.

4. Vesting Schedule. Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, Participant shall vest in his/her rights under the Restricted Stock and the Company's right to the return and reacquisition of such shares shall lapse on the date that the Compensation Committee of the Company's Board of Directors adopts a resolution certifying that the Minimum Target EBITDA (as hereinafter defined) has been achieved.

5. Issuance and Transferability.

(a) Registration and Restricting Legend. Upon grant, the Restricted Stock granted hereunder shall be registered in the name of Participant and, unless and until such Restricted Stock vests, shall be left on deposit with the Company, or in trust or escrow pursuant to an agreement satisfactory to the Company, until such time as the restrictions on transfer have lapsed. If the shares of Restricted Stock are represented by certificates, such certificates shall be marked with the following legend:

"The shares represented by this certificate have been issued pursuant to the terms of the Flotek Industries, Inc. 2010 Long-Term Incentive Plan and may not be sold, pledged, transferred, assigned or otherwise encumbered in any manner except as is set forth in the terms of the Restricted Stock Agreement dated June 3, 2011."

(b) Book Entry Form. If the shares are held in book entry form, then such entry will reflect, in a manner sufficient to effect in a legally enforceable form, that such shares of Restricted Stock are subject to the restrictions of this Award Agreement and the Plan.

(c) Stock Power. Participant will deliver to the Company a stock power, in substantially the form as Exhibit A attached hereto or such form as required by the Company, endorsed in blank, with respect to the Restricted Stock.

(d) Release of Restrictions. Upon vesting of the shares of Restricted Stock and satisfaction of any other conditions required by the Plan or pursuant to this Award Agreement, the Company shall promptly either issue a stock certificate, without such restricted legend, for any shares of the Restricted Stock that have vested, or, if the shares are held in book entry form, the Company shall remove the notations on the book entry registrations for any shares of the Restricted Stock that have vested.

(e) Prohibition on Transfer. Until restrictions lapse, the Restricted Stock shall not be transferable. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of Participant. Any purported assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock, regardless of by whom initiated or attempted, prior to the lapse of restrictions shall be void and unenforceable against the Company. If, notwithstanding the foregoing, an assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock is effected by operation of law, court order or otherwise, the affected Restricted Stock shall remain subject to the risk of forfeiture, vesting requirement and all other terms and conditions of this Award Agreement. In the case of Participant's death or Disability, Participant's vested rights under this Award Agreement (if any) may be exercised and enforced by Participant's guardian or legal representative.

6. Forfeiture.

(a) In the event of the occurrence of any of the following:

(i) Participant's Termination during 2011 for a reason other than a reason that causes Vesting pursuant to Section 6(b) of this Agreement; or

(ii) the determination by the Compensation Committee of the Company's Board of Directors that the Company failed to achieve "Adjusted EBITDA" for 2011 which equals or exceeds the minimum amount required pursuant to the 2011 Management Incentive Plan of the Company for participants thereunder to receive any bonus whatsoever pursuant to the terms thereof ("Minimum Target EBITDA");

the Restricted Stock shall immediately be forfeited and the Company shall repurchase such forfeited shares from the Participant for the lesser of (i) the amount paid by the Participant to the Company for such shares, if any, or (ii) the Fair Market Value of an equivalent number of shares of Common Stock determined on the date the Restricted Stock is forfeited.

(b) If not already forfeited pursuant to Section 6(a)(i), the occurrence of any of the following events prior to January 1, 2012 shall cause the Restricted Stock to be considered immediately Vested: (i) the death of Participant, (ii) the Disability of Participant or (iii) a Termination for a reason that entitles Participant to severance compensation pursuant to Section 5(a) of that certain Employment Agreement between the Company and Participant dated May 10, 2010, as amended by that Amendment to Employment Agreement dated May 19, 2011.

7. Ownership Rights. Subject to any reservations, conditions or restrictions set forth in this Award Agreement and/or the Plan, upon grant to Participant of the Restricted Stock, Participant shall be entitled to all voting rights applicable to the Restricted Stock during the Restricted Period. In the event of forfeiture of shares of Restricted Stock, the Participant shall have no further rights with respect to such Restricted Stock.

8. Reorganization of the Company. The existence of this Award Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; any merger or consolidation of the Company; any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Restricted Stock or the rights thereof; the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

9. Certain Restrictions. By executing this Award Agreement, Participant acknowledges that he will enter into such written representations, warranties and agreements and execute such documents as the Company may reasonably request in order to comply with the securities law or any other applicable laws, rules or regulations, or with this Award Agreement or the terms of the Plan.

10. Amendment and Termination. This Award Agreement may be amended or terminated only with the prior written consent of the Company and Participant.

11. Taxes and Withholdings.

(a) Tax Consequences. The granting, vesting and/or sale of all or any portion of the Restricted Stock may trigger tax liability. Participant agrees that he/she shall be solely responsible for any such tax liability. Participant is encouraged to contact his tax advisor to discuss any tax implications which may arise in connection with the Restricted Stock.

(b) Withholding. Participant acknowledges that the vesting of Restricted Stock granted pursuant to this Award Agreement, the making of an election under Section 83(b) of the Code and the vesting and payment of any accrued dividends may result in federal, state or local tax withholding obligations. Participant understands and acknowledges that the Company will not deliver shares of Common Stock or make any payment of accrued dividends until it is satisfied that appropriate arrangements have been made to satisfy any tax obligation under this Award Agreement or the Plan and agrees to make appropriate arrangements suitable to the Company for satisfaction of all tax withholding obligations. Further, Participant hereby agrees and grants to the Company the right to withhold from any payments or amounts of compensation, payable in cash or otherwise, in order to meet any tax withholding obligations under this Award Agreement or the Plan. As such, if the Company requests that Participant take any action required to

effect any action described in this Section and to satisfy the tax withholding obligation pursuant to this Award Agreement and the Plan, Participant hereby agrees to promptly take any such action.

(c) Section 83(b). Participant understands that any election under Section 83(b) of the Code with regard to the Restricted Stock must be made within thirty (30) days of the Grant Date and that, in the event of such election, Participant will so notify the Company in writing on or before such date.

12. No Guarantee of Tax Consequences. The Company, Board and Committee make no commitment or guarantee to Participant that any federal, state or local tax treatment will apply or be available to any person eligible for benefits under this Award Agreement and assumes no liability whatsoever for the tax consequences to Participant.

13. Severability. In the event that any provision of this Award Agreement is, becomes or is deemed to be illegal, invalid, or unenforceable for any reason, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board or the Committee, such provision shall be construed or deemed amended as necessary to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board or the Committee, materially altering the intent of the Plan or this Award Agreement, such provision shall be stricken as to such jurisdiction, the Participant or this Award Agreement, and the remainder of this Award Agreement shall remain in full force and effect.

14. Terms of the Plan Control. This Award Agreement and the underlying Award are made pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, the terms of the Plan, as amended from time to time and interpreted and applied by the Committee, shall govern and take precedence. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan, the terms of which are incorporated herein by reference.

15. Governing Law. This Award Agreement shall be construed in accordance with (excluding any conflict or choice of law provisions of) the laws of the State of Delaware to the extent federal law does not supersede and preempt Delaware law.

16. Consent to Electronic Delivery; Electronic Signature. Except as otherwise prohibited by law, in lieu of receiving documents in paper format, Participant agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company may be required to deliver (including, but not limited to, prospectuses, prospectuses supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered by the Company. Electronic delivery may be via a Company electronic mail system or by reference to a location on a Company intranet to which Participant has access. Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may be required to deliver, and agrees that his electronic signature is the same as, and shall have the same force and effect as, his manual signature.

[SIGNATURE PAGE FOLLOWS]

COMPANY:

Flotek Industries, Inc.

By: _____

Name Printed: _____

Title: _____

Date: _____

PARTICIPANT:

Steve Reeves

Address:

Date: _____

EXHIBIT A

Assignment Separate from Certificate

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto Flotek Industries, Inc., a Delaware corporation (the "Company"), (_____) shares of common stock of the Company represented by Certificate No. _____ and does hereby irrevocably constitute and appoint _____, or his designee or successor, as attorney to transfer the said stock on the books of the Company with full power of substitution in the premises.

Dated: _____, 20 ____ .

Print Name

Signature

INSTRUCTIONS: PLEASE DO NOT FILL IN ANY BLANKS OTHER THAN THE SIGNATURE LINE. THE PURPOSE OF THIS ASSIGNMENT IS TO ENABLE THE COMPANY TO EXERCISE ITS "REPURCHASE OPTION" SET FORTH IN THE AWARD AGREEMENT WITHOUT REQUIRING ADDITIONAL SIGNATURES ON THE PART OF THE PURCHASER.

**FLOTEK INDUSTRIES, INC.
2010 LONG-TERM INCENTIVE PLAN
RESTRICTED STOCK AGREEMENT**

1. Grant of Restricted Stock. Subject to the conditions described in this agreement (the "Award Agreement") and in the **Flotek Industries, Inc 2010 Long-Term Incentive Plan**, as amended from time to time (the "Plan"), Flotek Industries, Inc., a Delaware corporation (the "Company"), hereby agrees to grant to John W. Chisholm ("Participant") shares of "Restricted Stock" of the Company.

2. Number of Shares of Restricted Stock Granted. 200,000 shares of Restricted Stock (common stock of the Company, \$0.0001 par value per share).

3. Grant Date. April 8, 2011.

4. Vesting.

(a) Vesting Schedule. Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, including Participant's continued employment/service with the Company through the applicable vesting date set forth below, Participant shall vest in his/her rights under the Restricted Stock and the Company's right to the return and reacquisition of such shares shall lapse on April 8, 2013.

(b) Forfeited Restricted Stock. For the sake of clarity, references to Restricted Stock does not include any previously forfeited Restricted Stock.

5. Issuance and Transferability.

(a) Registration and Restricting Legend. Upon grant, the Restricted Stock granted hereunder shall be registered in the name of Participant and, unless and until such Restricted Stock vests, shall be left on deposit with the Company, or in trust or escrow pursuant to an agreement satisfactory to the Company, until such time as the restrictions on transfer have lapsed. If the shares of Restricted Stock are represented by certificates, such certificates shall be marked with the following legend:

"The shares represented by this certificate have been issued pursuant to the terms of the Flotek Industries, Inc. 2010 Long-Term Incentive Plan and may not be sold, pledged, transferred, assigned or otherwise encumbered in any manner except as is set forth in the terms of the Restricted Stock Agreement dated April 8, 2011."

(b) Book Entry Form. If the shares are held in book entry form, then such entry will reflect, in a manner sufficient to effect in a legally enforceable form, that such shares of Restricted Stock are subject to the restrictions of this Award Agreement and the Plan.

(c) Stock Power. Participant will deliver to the Company a stock power, in substantially the form as Exhibit A attached hereto or such form as required by the Company, endorsed in blank, with respect to each Award of Restricted Stock.

(d) Release of Restrictions. Upon vesting of any portion of the shares of Restricted Stock and satisfaction of any other conditions required by the Plan or pursuant to this Award Agreement, the Company shall promptly either issue a stock certificate, without such restricted legend, for any shares of the Restricted Stock that have vested, or, if the shares are held in book entry form, the Company shall remove the notations on the book entry registrations for any shares of the Restricted Stock that have vested.

(e) Prohibition on Transfer. Until restrictions lapse, the Restricted Stock shall not be transferable. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of Participant. Any purported assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock, regardless of by whom initiated or attempted, prior to the lapse of restrictions shall be void and unenforceable against the Company. If, notwithstanding the foregoing, an assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock is effected by operation of law, court order or otherwise, the affected Restricted Stock shall remain subject to the risk of forfeiture, vesting requirement and all other terms and conditions of this Award Agreement. In the case of Participant's death or Disability, Participant's vested rights under this Award Agreement (if any) may be exercised and enforced by Participant's guardian or legal representative.

6. Forfeiture.

(a) In the event of the occurrence of any of the following:

(i) Participant's Termination for a reason other than a reason that causes Vesting pursuant to Section 6(b) of this Agreement;

(ii) the Company's failure to achieve "Adjusted EBITDA" for 2011 which equals or exceeds the minimum amount required pursuant to the 2011 Management Incentive Plan of the Company for participants thereunder to receive any bonus whatsoever pursuant to the terms thereof; or

(iii) the disapproval of the Restricted Stock by the "Required Lenders" pursuant to Section 5.14 of the Amended and Restated Credit Agreement dated as of March 31, 2010 among the Company, Whitebox Advisors LLC, as Administrative Agent, and the Lenders parties thereto, as amended, modified or restated,

the unvested portion of the Restricted Stock held by Participant at that time shall immediately be forfeited and the Company shall repurchase such forfeited shares from the Participant for the lesser of (i) the amount paid by the Participant to the Company for such shares, if any, or (ii) the Fair Market Value of an equivalent number of shares of Common Stock determined on the date the Restricted Stock is forfeited.

“Adjusted EBITDA” means the EBITDA of the Company, plus any amounts deducted in computing EBITDA with respect to stock compensation, financing transaction costs (whether paid in cash or not), and other noncash and/or nonrecurring charges not directly related to the ongoing operations of the Company. “EBITDA” means the sum of (a) the Company’s net income after taxes as determined in accordance with GAAP, excluding, however, extraordinary items, including any net non-cash gain or loss arising from the sale, exchange, retirement or other disposition of capital assets (such term to include all fixed assets and all securities) other than in the ordinary course of business, and any write-up or write-down of assets, and the cumulative effect of any change in GAAP plus (b) to the extent deducted in determining the Company’s net income, total cash interest expense and other fees and expenses incurred by the Company in connection with any debt whether paid or accrued, income taxes, depreciation, amortization and other non-cash charges. Specific determination of Adjusted EBITDA shall be based solely upon the judgment of the Audit Committee of the Company’s Board of Directors upon recommendations received from the Company’s Chief Accounting Officer.

(b) If not already forfeited pursuant to Section 6(a), the occurrence of any of the following events shall cause the portion of the Restricted Stock which is not yet Vested to be considered immediately Vested: (i) a Change of Control, (ii) the death of Participant, (iii) a Termination by the Company which is not for Cause, (iv) a Termination by the Participant which is for Good Reason (as hereinafter defined), (v) a Termination which is because of the Disability of Participant. For purposes hereof, “Good Reason” shall exist upon the occurrence of one of the following Company actions (unless the Participant consents in writing to such action(s)): (i) a material reduction of the compensation and benefits to which the Participant was entitled immediately prior to such reduction, (ii) a material reduction in the duties, authority or responsibilities relative to the duties, authority or responsibilities of the Participant as in effect immediately prior to such reduction, or (iii) the relocation of Participant to a facility or a location more than fifty (50) miles from Participant’s then present location; provided, however, that (A) Participant must provide the Company with written notice of the occurrence of such action(s) within 60 days of the initial occurrence of such action(s) and of Participant’s intent to terminate the term of this Agreement based on such action(s) and (B) the Company will have 30 days from the date that such written notice is provided by the Participant to cure such action(s).

7. Ownership Rights. Subject to any reservations, conditions or restrictions set forth in this Award Agreement and/or the Plan, upon grant to Participant of the Restricted Stock, Participant shall be entitled to all voting rights applicable to the Restricted Stock during the Restricted Period. In the event of forfeiture of shares of Restricted Stock, the Participant shall have no further rights with respect to such Restricted Stock.

8. Reorganization of the Company. The existence of this Award Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize

any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; any merger or consolidation of the Company; any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Restricted Stock or the rights thereof; the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

9. Certain Restrictions. By executing this Award Agreement, Participant acknowledges that he will enter into such written representations, warranties and agreements and execute such documents as the Company may reasonably request in order to comply with the securities law or any other applicable laws, rules or regulations, or with this Award Agreement or the terms of the Plan.

10. Amendment and Termination. This Award Agreement or the Plan may be amended or terminated in accordance with the terms of the Plan and with the express written consent of Participant.

11. Taxes and Withholdings.

(a) Tax Consequences. The granting, vesting and/or sale of all or any portion of the Restricted Stock may trigger tax liability. Participant agrees that he/she shall be solely responsible for any such tax liability. Participant is encouraged to contact his tax advisor to discuss any tax implications which may arise in connection with the Restricted Stock.

(b) Withholding. Participant acknowledges that the vesting of Restricted Stock granted pursuant to this Award Agreement, the making of an election under Section 83(b) of the Code and the vesting and payment of any accrued dividends may result in federal, state or local tax withholding obligations. Participant understands and acknowledges that the Company will not deliver shares of Common Stock or make any payment of accrued dividends until it is satisfied that appropriate arrangements have been made to satisfy any tax obligation under this Award Agreement or the Plan and agrees to make appropriate arrangements suitable to the Company for satisfaction of all tax withholding obligations. Further, Participant hereby agrees and grants to the Company the right to withhold from any payments or amounts of compensation, payable in cash or otherwise, in order to meet any tax withholding obligations under this Award Agreement or the Plan. As such, if the Company requests that Participant take any action required to effect any action described in this Section and to satisfy the tax withholding obligation pursuant to this Award Agreement and the Plan, Participant hereby agrees to promptly take any such action.

(c) Section 83(b). Participant understands that any election under Section 83(b) of the Code with regard to the Restricted Stock must be made within thirty (30) days of the Grant Date and that, in the event of such election, Participant will so notify the Company in writing on or before such date.

12. No Guarantee of Tax Consequences. The Company, Board and Committee make no commitment or guarantee to Participant that any federal, state or local tax treatment will apply or be available to any person eligible for benefits under this Award Agreement and assumes no liability whatsoever for the tax consequences to Participant.

13. Severability. In the event that any provision of this Award Agreement is, becomes or is deemed to be illegal, invalid, or unenforceable for any reason, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board or the Committee, such provision shall be construed or deemed amended as necessary to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board or the Committee, materially altering the intent of the Plan or this Award Agreement, such provision shall be stricken as to such jurisdiction, the Participant or this Award Agreement, and the remainder of this Award Agreement shall remain in full force and effect.

14. Terms of the Plan Control. This Award Agreement and the underlying Award are made pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, the terms of the Plan, as amended from time to time and interpreted and applied by the Committee, shall govern and take precedence. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan, the terms of which are incorporated herein by reference.

15. Governing Law. This Award Agreement shall be construed in accordance with (excluding any conflict or choice of law provisions of) the laws of the State of Delaware to the extent federal law does not supersede and preempt Delaware law.

16. Consent to Electronic Delivery; Electronic Signature. Except as otherwise prohibited by law, in lieu of receiving documents in paper format, Participant agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company may be required to deliver (including, but not limited to, prospectuses, prospectuses supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered by the Company. Electronic delivery may be via a Company electronic mail system or by reference to a location on a Company intranet to which Participant has access. Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may be required to deliver, and agrees that his electronic signature is the same as, and shall have the same force and effect as, his manual signature.

[SIGNATURE PAGE FOLLOWS]

COMPANY:

Flotek Industries, Inc.

By: _____

Name Printed: _____

Title: _____

Date: _____

PARTICIPANT:

John W. Chisholm

Address:

Date: _____

EXHIBIT A

Assignment Separate from Certificate

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto Flotek Industries, Inc., a Delaware corporation (the "Company"), (_____) shares of common stock of the Company represented by Certificate No. _____ and does hereby irrevocably constitute and appoint _____, or his designee or successor, as attorney to transfer the said stock on the books of the Company with full power of substitution in the premises.

Dated: _____, 20 ____ .

Print Name

Signature

INSTRUCTIONS: PLEASE DO NOT FILL IN ANY BLANKS OTHER THAN THE SIGNATURE LINE. THE PURPOSE OF THIS ASSIGNMENT IS TO ENABLE THE COMPANY TO EXERCISE ITS "REPURCHASE OPTION" SET FORTH IN THE AWARD AGREEMENT WITHOUT REQUIRING ADDITIONAL SIGNATURES ON THE PART OF THE PURCHASER.

**FLOTEK INDUSTRIES, INC.
2010 LONG-TERM INCENTIVE PLAN
RESTRICTED STOCK AGREEMENT**

1. Grant of Restricted Stock. Subject to the conditions described in this agreement (the “Award Agreement”) and in the **Flotek Industries, Inc 2010 Long-Term Incentive Plan**, as amended from time to time (the “Plan”), Flotek Industries, Inc., a Delaware corporation (the “Company”), hereby agrees to grant to Johnna Kokenge (“Participant”) shares of “Restricted Stock” of the Company.

2. Number of Shares of Restricted Stock Granted. 50,000 shares of Restricted Stock (common stock of the Company, \$0.0001 par value per share).

3. Grant Date. April 8, 2011.

4. Vesting.

(a) Vesting Schedule. Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, including Participant’s continued employment/service with the Company through the applicable vesting date set forth below, Participant shall vest in his/her rights under the Restricted Stock and the Company’s right to the return and reacquisition of such shares shall lapse on April 8, 2013.

(b) Forfeited Restricted Stock. For the sake of clarity, references to Restricted Stock does not include any previously forfeited Restricted Stock.

5. Issuance and Transferability.

(a) Registration and Restricting Legend. Upon grant, the Restricted Stock granted hereunder shall be registered in the name of Participant and, unless and until such Restricted Stock vests, shall be left on deposit with the Company, or in trust or escrow pursuant to an agreement satisfactory to the Company, until such time as the restrictions on transfer have lapsed. If the shares of Restricted Stock are represented by certificates, such certificates shall be marked with the following legend:

“The shares represented by this certificate have been issued pursuant to the terms of the Flotek Industries, Inc. 2010 Long-Term Incentive Plan and may not be sold, pledged, transferred, assigned or otherwise encumbered in any manner except as is set forth in the terms of the Restricted Stock Agreement dated April 8, 2011.”

(b) Book Entry Form. If the shares are held in book entry form, then such entry will reflect, in a manner sufficient to effect in a legally enforceable form, that such shares of Restricted Stock are subject to the restrictions of this Award Agreement and the Plan.

(c) Stock Power. Participant will deliver to the Company a stock power, in substantially the form as Exhibit A attached hereto or such form as required by the Company, endorsed in blank, with respect to each Award of Restricted Stock.

(d) Release of Restrictions. Upon vesting of any portion of the shares of Restricted Stock and satisfaction of any other conditions required by the Plan or pursuant to this Award Agreement, the Company shall promptly either issue a stock certificate, without such restricted legend, for any shares of the Restricted Stock that have vested, or, if the shares are held in book entry form, the Company shall remove the notations on the book entry registrations for any shares of the Restricted Stock that have vested.

(e) Prohibition on Transfer. Until restrictions lapse, the Restricted Stock shall not be transferable. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of Participant. Any purported assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock, regardless of by whom initiated or attempted, prior to the lapse of restrictions shall be void and unenforceable against the Company. If, notwithstanding the foregoing, an assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock is effected by operation of law, court order or otherwise, the affected Restricted Stock shall remain subject to the risk of forfeiture, vesting requirement and all other terms and conditions of this Award Agreement. In the case of Participant's death or Disability, Participant's vested rights under this Award Agreement (if any) may be exercised and enforced by Participant's guardian or legal representative.

6. Forfeiture.

(a) In the event of the occurrence of any of the following:

(i) Participant's Termination for a reason other than a reason that causes Vesting pursuant to Section 6(b) of this Agreement;

(ii) the Company's failure to achieve "Adjusted EBITDA" for 2011 which equals or exceeds the minimum amount required pursuant to the 2011 Management Incentive Plan of the Company for participants thereunder to receive any bonus whatsoever pursuant to the terms thereof; or

(iii) the disapproval of the Restricted Stock by the "Required Lenders" pursuant to Section 5.14 of the Amended and Restated Credit Agreement dated as of March 31, 2010 among the Company, Whitebox Advisors LLC, as Administrative Agent, and the Lenders parties thereto, as amended, modified or restated,

the unvested portion of the Restricted Stock held by Participant at that time shall immediately be forfeited and the Company shall repurchase such forfeited shares from the Participant for the lesser of (i) the amount paid by the Participant to the Company for such shares, if any, or (ii) the Fair Market Value of an equivalent number of shares of Common Stock determined on the date the Restricted Stock is forfeited.

“Adjusted EBITDA” means the EBITDA of the Company, plus any amounts deducted in computing EBITDA with respect to stock compensation, financing transaction costs (whether paid in cash or not), and other noncash and/or nonrecurring charges not directly related to the ongoing operations of the Company. “EBITDA” means the sum of (a) the Company’s net income after taxes as determined in accordance with GAAP, excluding, however, extraordinary items, including any net non-cash gain or loss arising from the sale, exchange, retirement or other disposition of capital assets (such term to include all fixed assets and all securities) other than in the ordinary course of business, and any write-up or write-down of assets, and the cumulative effect of any change in GAAP plus (b) to the extent deducted in determining the Company’s net income, total cash interest expense and other fees and expenses incurred by the Company in connection with any debt whether paid or accrued, income taxes, depreciation, amortization and other non-cash charges. Specific determination of Adjusted EBITDA shall be based solely upon the judgment of the Audit Committee of the Company’s Board of Directors upon recommendations received from the Company’s Chief Accounting Officer.

(b) If not already forfeited pursuant to Section 6(a), the occurrence of any of the following events shall cause the portion of the Restricted Stock which is not yet Vested to be considered immediately Vested: (i) a Change of Control, (ii) the death of Participant, (iii) a Termination by the Company which is not for Cause, (iv) a Termination by the Participant which is for Good Reason (as hereinafter defined), (v) a Termination which is because of the Disability of Participant. For purposes hereof, “Good Reason” shall exist upon the occurrence of one of the following Company actions (unless the Participant consents in writing to such action(s)): (i) a material reduction of the compensation and benefits to which the Participant was entitled immediately prior to such reduction, (ii) a material reduction in the duties, authority or responsibilities relative to the duties, authority or responsibilities of the Participant as in effect immediately prior to such reduction, or (iii) the relocation of Participant to a facility or a location more than fifty (50) miles from Participant’s then present location; provided, however, that (A) Participant must provide the Company with written notice of the occurrence of such action(s) within 60 days of the initial occurrence of such action(s) and of Participant’s intent to terminate the term of this Agreement based on such action(s) and (B) the Company will have 30 days from the date that such written notice is provided by the Participant to cure such action(s). For purposes hereof, “Change of Control” shall have the meaning given said term in the Plan, and shall also mean John Chisholm no longer serving as the President of the Company.

7. Ownership Rights. Subject to any reservations, conditions or restrictions set forth in this Award Agreement and/or the Plan, upon grant to Participant of the Restricted Stock, Participant shall be entitled to all voting rights applicable to the Restricted Stock during the Restricted Period. In the event of forfeiture of shares of Restricted Stock, the Participant shall have no further rights with respect to such Restricted Stock.

8. Reorganization of the Company. The existence of this Award Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; any merger or consolidation of the Company; any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Restricted Stock or the rights thereof; the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

9. Certain Restrictions. By executing this Award Agreement, Participant acknowledges that he will enter into such written representations, warranties and agreements and execute such documents as the Company may reasonably request in order to comply with the securities law or any other applicable laws, rules or regulations, or with this Award Agreement or the terms of the Plan.

10. Amendment and Termination. This Award Agreement or the Plan may be amended or terminated in accordance with the terms of the Plan and with the express written consent of Participant.

11. Taxes and Withholdings.

(a) Tax Consequences. The granting, vesting and/or sale of all or any portion of the Restricted Stock may trigger tax liability. Participant agrees that he/she shall be solely responsible for any such tax liability. Participant is encouraged to contact his tax advisor to discuss any tax implications which may arise in connection with the Restricted Stock.

(b) Withholding. Participant acknowledges that the vesting of Restricted Stock granted pursuant to this Award Agreement, the making of an election under Section 83(b) of the Code and the vesting and payment of any accrued dividends may result in federal, state or local tax withholding obligations. Participant understands and acknowledges that the Company will not deliver shares of Common Stock or make any payment of accrued dividends until it is satisfied that appropriate arrangements have been made to satisfy any tax obligation under this Award Agreement or the Plan and agrees to make appropriate arrangements suitable to the Company for satisfaction of all tax withholding obligations. Further, Participant hereby agrees and grants to the Company the right to withhold from any payments or amounts of compensation, payable in cash or otherwise, in order to meet any tax withholding obligations under this Award Agreement or the Plan. As such, if the Company requests that Participant take any action required to effect any action described in this Section and to satisfy the tax withholding obligation pursuant to this Award Agreement and the Plan, Participant hereby agrees to promptly take any such action.

(c) Section 83(b). Participant understands that any election under Section 83(b) of the Code with regard to the Restricted Stock must be made within thirty (30) days of the Grant Date and that, in the event of such election, Participant will so notify the Company in writing on or before such date.

12. No Guarantee of Tax Consequences. The Company, Board and Committee make no commitment or guarantee to Participant that any federal, state or local tax treatment will apply or be available to any person eligible for benefits under this Award Agreement and assumes no liability whatsoever for the tax consequences to Participant.

13. Severability. In the event that any provision of this Award Agreement is, becomes or is deemed to be illegal, invalid, or unenforceable for any reason, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board or the Committee, such provision shall be construed or deemed amended as necessary to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board or the Committee, materially altering the intent of the Plan or this Award Agreement, such provision shall be stricken as to such jurisdiction, the Participant or this Award Agreement, and the remainder of this Award Agreement shall remain in full force and effect.

14. Terms of the Plan Control. This Award Agreement and the underlying Award are made pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, the terms of the Plan, as amended from time to time and interpreted and applied by the Committee, shall govern and take precedence. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan, the terms of which are incorporated herein by reference.

15. Governing Law. This Award Agreement shall be construed in accordance with (excluding any conflict or choice of law provisions of) the laws of the State of Delaware to the extent federal law does not supersede and preempt Delaware law.

16. Consent to Electronic Delivery; Electronic Signature. Except as otherwise prohibited by law, in lieu of receiving documents in paper format, Participant agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company may be required to deliver (including, but not limited to, prospectuses, prospectuses supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered by the Company. Electronic delivery may be via a Company electronic mail system or by reference to a location on a Company intranet to which Participant has access. Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may be required to deliver, and agrees that his electronic signature is the same as, and shall have the same force and effect as, his manual signature.

[SIGNATURE PAGE FOLLOWS]

COMPANY:

Flotek Industries, Inc.

By: _____
Name Printed: _____
Title: _____
Date: _____

PARTICIPANT:

Johnna Kokenge

Address: _____

Date: _____

EXHIBIT A

Assignment Separate from Certificate

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto Flotek Industries, Inc., a Delaware corporation (the "Company"), (_____) shares of common stock of the Company represented by Certificate No. _____ and does hereby irrevocably constitute and appoint _____, or his designee or successor, as attorney to transfer the said stock on the books of the Company with full power of substitution in the premises.

Dated: _____, 20 ____ .

Print Name

Signature

INSTRUCTIONS: PLEASE DO NOT FILL IN ANY BLANKS OTHER THAN THE SIGNATURE LINE. THE PURPOSE OF THIS ASSIGNMENT IS TO ENABLE THE COMPANY TO EXERCISE ITS "REPURCHASE OPTION" SET FORTH IN THE AWARD AGREEMENT WITHOUT REQUIRING ADDITIONAL SIGNATURES ON THE PART OF THE PURCHASER.

**FLOTEK INDUSTRIES, INC.
2010 LONG-TERM INCENTIVE PLAN
RESTRICTED STOCK AGREEMENT**

1. Grant of Restricted Stock. Subject to the conditions described in this agreement (the “Award Agreement”) and in the **Flotek Industries, Inc 2010 Long-Term Incentive Plan**, as amended from time to time (the “Plan”), Flotek Industries, Inc., a Delaware corporation (the “Company”), hereby agrees to grant to Steve Reeves (“Participant”) shares of “Restricted Stock” of the Company.

2. Number of Shares of Restricted Stock Granted. 50,000 shares of Restricted Stock (common stock of the Company, \$0.0001 par value per share).

3. Grant Date. April 8, 2011.

4. Vesting.

(a) Vesting Schedule. Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, including Participant’s continued employment/service with the Company through the applicable vesting date set forth below, Participant shall vest in his/her rights under the Restricted Stock and the Company’s right to the return and reacquisition of such shares shall lapse on April 8, 2013.

(b) Forfeited Restricted Stock. For the sake of clarity, references to Restricted Stock does not include any previously forfeited Restricted Stock.

5. Issuance and Transferability.

(a) Registration and Restricting Legend. Upon grant, the Restricted Stock granted hereunder shall be registered in the name of Participant and, unless and until such Restricted Stock vests, shall be left on deposit with the Company, or in trust or escrow pursuant to an agreement satisfactory to the Company, until such time as the restrictions on transfer have lapsed. If the shares of Restricted Stock are represented by certificates, such certificates shall be marked with the following legend:

“The shares represented by this certificate have been issued pursuant to the terms of the Flotek Industries, Inc. 2010 Long-Term Incentive Plan and may not be sold, pledged, transferred, assigned or otherwise encumbered in any manner except as is set forth in the terms of the Restricted Stock Agreement dated April 8, 2011.”

(b) Book Entry Form. If the shares are held in book entry form, then such entry will reflect, in a manner sufficient to effect in a legally enforceable form, that such shares of Restricted Stock are subject to the restrictions of this Award Agreement and the Plan.

(c) Stock Power. Participant will deliver to the Company a stock power, in substantially the form as Exhibit A attached hereto or such form as required by the Company, endorsed in blank, with respect to each Award of Restricted Stock.

(d) Release of Restrictions. Upon vesting of any portion of the shares of Restricted Stock and satisfaction of any other conditions required by the Plan or pursuant to this Award Agreement, the Company shall promptly either issue a stock certificate, without such restricted legend, for any shares of the Restricted Stock that have vested, or, if the shares are held in book entry form, the Company shall remove the notations on the book entry registrations for any shares of the Restricted Stock that have vested.

(e) Prohibition on Transfer. Until restrictions lapse, the Restricted Stock shall not be transferable. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of Participant. Any purported assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock, regardless of by whom initiated or attempted, prior to the lapse of restrictions shall be void and unenforceable against the Company. If, notwithstanding the foregoing, an assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock is effected by operation of law, court order or otherwise, the affected Restricted Stock shall remain subject to the risk of forfeiture, vesting requirement and all other terms and conditions of this Award Agreement. In the case of Participant's death or Disability, Participant's vested rights under this Award Agreement (if any) may be exercised and enforced by Participant's guardian or legal representative.

6. Forfeiture.

(a) In the event of the occurrence of any of the following:

(i) Participant's Termination for a reason other than a reason that causes Vesting pursuant to Section 6(b) of this Agreement;

(ii) the Company's failure to achieve "Adjusted EBITDA" for 2011 which equals or exceeds the minimum amount required pursuant to the 2011 Management Incentive Plan of the Company for participants thereunder to receive any bonus whatsoever pursuant to the terms thereof; or

(iii) the disapproval of the Restricted Stock by the "Required Lenders" pursuant to Section 5.14 of the Amended and Restated Credit Agreement dated as of March 31, 2010 among the Company, Whitebox Advisors LLC, as Administrative Agent, and the Lenders parties thereto, as amended, modified or restated,

the unvested portion of the Restricted Stock held by Participant at that time shall immediately be forfeited and the Company shall repurchase such forfeited shares from the Participant for the lesser of (i) the amount paid by the Participant to the Company for such shares, if any, or (ii) the Fair Market Value of an equivalent number of shares of Common Stock determined on the date the Restricted Stock is forfeited.

“Adjusted EBITDA” means the EBITDA of the Company, plus any amounts deducted in computing EBITDA with respect to stock compensation, financing transaction costs (whether paid in cash or not), and other noncash and/or nonrecurring charges not directly related to the ongoing operations of the Company. “EBITDA” means the sum of (a) the Company’s net income after taxes as determined in accordance with GAAP, excluding, however, extraordinary items, including any net non-cash gain or loss arising from the sale, exchange, retirement or other disposition of capital assets (such term to include all fixed assets and all securities) other than in the ordinary course of business, and any write-up or write-down of assets, and the cumulative effect of any change in GAAP plus (b) to the extent deducted in determining the Company’s net income, total cash interest expense and other fees and expenses incurred by the Company in connection with any debt whether paid or accrued, income taxes, depreciation, amortization and other non-cash charges. Specific determination of Adjusted EBITDA shall be based solely upon the judgment of the Audit Committee of the Company’s Board of Directors upon recommendations received from the Company’s Chief Accounting Officer.

(b) If not already forfeited pursuant to Section 6(a), the occurrence of any of the following events shall cause the portion of the Restricted Stock which is not yet Vested to be considered immediately Vested: (i) a Change of Control, (ii) the death of Participant, (iii) a Termination by the Company which is not for Cause, (iv) a Termination by the Participant which is for Good Reason (as hereinafter defined), (v) a Termination which is because of the Disability of Participant. For purposes hereof, “Good Reason” shall exist upon the occurrence of one of the following Company actions (unless the Participant consents in writing to such action(s)): (i) a material reduction of the compensation and benefits to which the Participant was entitled immediately prior to such reduction, (ii) a material reduction in the duties, authority or responsibilities relative to the duties, authority or responsibilities of the Participant as in effect immediately prior to such reduction, or (iii) the relocation of Participant to a facility or a location more than fifty (50) miles from Participant’s then present location; provided, however, that (A) Participant must provide the Company with written notice of the occurrence of such action(s) within 60 days of the initial occurrence of such action(s) and of Participant’s intent to terminate the term of this Agreement based on such action(s) and (B) the Company will have 30 days from the date that such written notice is provided by the Participant to cure such action(s). For purposes hereof, “Change of Control” shall have the meaning given said term in the Plan, and shall also mean John Chisholm no longer serving as the President of the Company.

7. Ownership Rights. Subject to any reservations, conditions or restrictions set forth in this Award Agreement and/or the Plan, upon grant to Participant of the Restricted Stock, Participant shall be entitled to all voting rights applicable to the Restricted Stock during the Restricted Period. In the event of forfeiture of shares of Restricted Stock, the Participant shall have no further rights with respect to such Restricted Stock.

8. Reorganization of the Company. The existence of this Award Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; any merger or consolidation of the Company; any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Restricted Stock or the rights thereof; the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

9. Certain Restrictions. By executing this Award Agreement, Participant acknowledges that he will enter into such written representations, warranties and agreements and execute such documents as the Company may reasonably request in order to comply with the securities law or any other applicable laws, rules or regulations, or with this Award Agreement or the terms of the Plan.

10. Amendment and Termination. This Award Agreement or the Plan may be amended or terminated in accordance with the terms of the Plan and with the express written consent of Participant.

11. Taxes and Withholdings.

(a) Tax Consequences. The granting, vesting and/or sale of all or any portion of the Restricted Stock may trigger tax liability. Participant agrees that he/she shall be solely responsible for any such tax liability. Participant is encouraged to contact his tax advisor to discuss any tax implications which may arise in connection with the Restricted Stock.

(b) Withholding. Participant acknowledges that the vesting of Restricted Stock granted pursuant to this Award Agreement, the making of an election under Section 83(b) of the Code and the vesting and payment of any accrued dividends may result in federal, state or local tax withholding obligations. Participant understands and acknowledges that the Company will not deliver shares of Common Stock or make any payment of accrued dividends until it is satisfied that appropriate arrangements have been made to satisfy any tax obligation under this Award Agreement or the Plan and agrees to make appropriate arrangements suitable to the Company for satisfaction of all tax withholding obligations. Further, Participant hereby agrees and grants to the Company the right to withhold from any payments or amounts of compensation, payable in cash or otherwise, in order to meet any tax withholding obligations under this Award Agreement or the Plan. As such, if the Company requests that Participant take any action required to effect any action described in this Section and to satisfy the tax withholding obligation pursuant to this Award Agreement and the Plan, Participant hereby agrees to promptly take any such action.

(c) Section 83(b). Participant understands that any election under Section 83(b) of the Code with regard to the Restricted Stock must be made within thirty (30) days of the Grant Date and that, in the event of such election, Participant will so notify the Company in writing on or before such date.

12. No Guarantee of Tax Consequences. The Company, Board and Committee make no commitment or guarantee to Participant that any federal, state or local tax treatment will apply or be available to any person eligible for benefits under this Award Agreement and assumes no liability whatsoever for the tax consequences to Participant.

13. Severability. In the event that any provision of this Award Agreement is, becomes or is deemed to be illegal, invalid, or unenforceable for any reason, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board or the Committee, such provision shall be construed or deemed amended as necessary to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board or the Committee, materially altering the intent of the Plan or this Award Agreement, such provision shall be stricken as to such jurisdiction, the Participant or this Award Agreement, and the remainder of this Award Agreement shall remain in full force and effect.

14. Terms of the Plan Control. This Award Agreement and the underlying Award are made pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, the terms of the Plan, as amended from time to time and interpreted and applied by the Committee, shall govern and take precedence. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan, the terms of which are incorporated herein by reference.

15. Governing Law. This Award Agreement shall be construed in accordance with (excluding any conflict or choice of law provisions of) the laws of the State of Delaware to the extent federal law does not supersede and preempt Delaware law.

16. Consent to Electronic Delivery; Electronic Signature. Except as otherwise prohibited by law, in lieu of receiving documents in paper format, Participant agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company may be required to deliver (including, but not limited to, prospectuses, prospectuses supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered by the Company. Electronic delivery may be via a Company electronic mail system or by reference to a location on a Company intranet to which Participant has access. Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may be required to deliver, and agrees that his electronic signature is the same as, and shall have the same force and effect as, his manual signature.

[SIGNATURE PAGE FOLLOWS]

COMPANY:

Flotek Industries, Inc.

By: _____
Name Printed: _____
Title: _____
Date: _____

PARTICIPANT:

Steve Reeves

Address:

Date: _____

EXHIBIT A

Assignment Separate from Certificate

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto Flotek Industries, Inc., a Delaware corporation (the "Company"), (_____) shares of common stock of the Company represented by Certificate No. _____ and does hereby irrevocably constitute and appoint _____, or his designee or successor, as attorney to transfer the said stock on the books of the Company with full power of substitution in the premises.

Dated: _____, 20 ____ .

Print Name

Signature

INSTRUCTIONS: PLEASE DO NOT FILL IN ANY BLANKS OTHER THAN THE SIGNATURE LINE. THE PURPOSE OF THIS ASSIGNMENT IS TO ENABLE THE COMPANY TO EXERCISE ITS "REPURCHASE OPTION" SET FORTH IN THE AWARD AGREEMENT WITHOUT REQUIRING ADDITIONAL SIGNATURES ON THE PART OF THE PURCHASER.

**FLOTEK INDUSTRIES, INC.
2010 LONG-TERM INCENTIVE PLAN
RESTRICTED STOCK AGREEMENT**

1. Grant of Restricted Stock. Subject to the conditions described in this agreement (the “Award Agreement”) and in the **Flotek Industries, Inc 2010 Long-Term Incentive Plan**, as amended from time to time (the “Plan”), Flotek Industries, Inc., a Delaware corporation (the “Company”), hereby agrees to grant to Jesse “Jempy” Neyman (“Participant”) shares of “Restricted Stock” of the Company.

2. Number of Shares of Restricted Stock Granted. 7,923 shares of Restricted Stock (common stock of the Company, \$0.0001 par value per share).

3. Grant Date. June 3, 2011.

4. Vesting Schedule. Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, Participant shall vest in his/her rights under the Restricted Stock and the Company’s right to the return and reacquisition of such shares shall lapse on the date that the Compensation Committee of the Company’s Board of Directors adopts a resolution certifying that the Minimum Target EBITDA (as hereinafter defined) has been achieved.

5. Issuance and Transferability.

(a) Registration and Restricting Legend. Upon grant, the Restricted Stock granted hereunder shall be registered in the name of Participant and, unless and until such Restricted Stock vests, shall be left on deposit with the Company, or in trust or escrow pursuant to an agreement satisfactory to the Company, until such time as the restrictions on transfer have lapsed. If the shares of Restricted Stock are represented by certificates, such certificates shall be marked with the following legend:

“The shares represented by this certificate have been issued pursuant to the terms of the Flotek Industries, Inc. 2010 Long-Term Incentive Plan and may not be sold, pledged, transferred, assigned or otherwise encumbered in any manner except as is set forth in the terms of the Restricted Stock Agreement dated June 3, 2011.”

(b) Book Entry Form. If the shares are held in book entry form, then such entry will reflect, in a manner sufficient to effect in a legally enforceable form, that such shares of Restricted Stock are subject to the restrictions of this Award Agreement and the Plan.

(c) Stock Power. Participant will deliver to the Company a stock power, in substantially the form as Exhibit A attached hereto or such form as required by the Company, endorsed in blank, with respect to the Restricted Stock.

(d) Release of Restrictions. Upon vesting of the shares of Restricted Stock and satisfaction of any other conditions required by the Plan or pursuant to this Award Agreement, the Company shall promptly either issue a stock certificate, without such restricted legend, for any shares of the Restricted Stock that have vested, or, if the shares are held in book entry form, the Company shall remove the notations on the book entry registrations for any shares of the Restricted Stock that have vested.

(e) Prohibition on Transfer. Until restrictions lapse, the Restricted Stock shall not be transferable. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of Participant. Any purported assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock, regardless of by whom initiated or attempted, prior to the lapse of restrictions shall be void and unenforceable against the Company. If, notwithstanding the foregoing, an assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock is effected by operation of law, court order or otherwise, the affected Restricted Stock shall remain subject to the risk of forfeiture, vesting requirement and all other terms and conditions of this Award Agreement. In the case of Participant's death or Disability, Participant's vested rights under this Award Agreement (if any) may be exercised and enforced by Participant's guardian or legal representative.

6. Forfeiture.

(a) In the event of the occurrence of any of the following:

(i) Participant's Termination during 2011 for a reason other than a reason that causes Vesting pursuant to Section 6(b) of this Agreement; or

(ii) the determination by the Compensation Committee of the Company's Board of Directors that the Company failed to achieve "Adjusted EBITDA" for 2011 which equals or exceeds the minimum amount required pursuant to the 2011 Management Incentive Plan of the Company for participants thereunder to receive any bonus whatsoever pursuant to the terms thereof ("Minimum Target EBITDA");

the Restricted Stock shall immediately be forfeited and the Company shall repurchase such forfeited shares from the Participant for the lesser of (i) the amount paid by the Participant to the Company for such shares, if any, or (ii) the Fair Market Value of an equivalent number of shares of Common Stock determined on the date the Restricted Stock is forfeited.

(b) If not already forfeited pursuant to Section 6(a)(i), the occurrence of any of the following events prior to January 1, 2012 shall cause the Restricted Stock to be considered immediately Vested: (i) the death of Participant, (ii) the Disability of Participant or (iii) a Termination for a reason that entitles Participant to severance compensation pursuant to Section 5(a) of that certain Employment Agreement between the Company and Participant dated August 11, 2009, as amended by that Amendment to Employment Agreement dated May 19, 2011.

7. Ownership Rights. Subject to any reservations, conditions or restrictions set forth in this Award Agreement and/or the Plan, upon grant to Participant of the Restricted Stock, Participant shall be entitled to all voting rights applicable to the Restricted Stock during the Restricted Period. In the event of forfeiture of shares of Restricted Stock, the Participant shall have no further rights with respect to such Restricted Stock.

8. Reorganization of the Company. The existence of this Award Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; any merger or consolidation of the Company; any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Restricted Stock or the rights thereof; the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

9. Certain Restrictions. By executing this Award Agreement, Participant acknowledges that he will enter into such written representations, warranties and agreements and execute such documents as the Company may reasonably request in order to comply with the securities law or any other applicable laws, rules or regulations, or with this Award Agreement or the terms of the Plan.

10. Amendment and Termination. This Award Agreement may be amended or terminated only with the prior written consent of the Company and Participant.

11. Taxes and Withholdings.

(a) Tax Consequences. The granting, vesting and/or sale of all or any portion of the Restricted Stock may trigger tax liability. Participant agrees that he/she shall be solely responsible for any such tax liability. Participant is encouraged to contact his tax advisor to discuss any tax implications which may arise in connection with the Restricted Stock.

(b) Withholding. Participant acknowledges that the vesting of Restricted Stock granted pursuant to this Award Agreement, the making of an election under Section 83(b) of the Code and the vesting and payment of any accrued dividends may result in federal, state or local tax withholding obligations. Participant understands and acknowledges that the Company will not deliver shares of Common Stock or make any payment of accrued dividends until it is satisfied that appropriate arrangements have been made to satisfy any tax obligation under this Award Agreement or the Plan and agrees to make appropriate arrangements suitable to the Company for satisfaction of all tax withholding obligations. Further, Participant hereby agrees and grants to the Company the right to withhold from any payments or amounts of compensation, payable in cash or otherwise, in order to meet any tax withholding obligations under this Award Agreement or the Plan. As such, if the Company requests that Participant take any action required to

effect any action described in this Section and to satisfy the tax withholding obligation pursuant to this Award Agreement and the Plan, Participant hereby agrees to promptly take any such action.

(c) Section 83(b). Participant understands that any election under Section 83(b) of the Code with regard to the Restricted Stock must be made within thirty (30) days of the Grant Date and that, in the event of such election, Participant will so notify the Company in writing on or before such date.

12. No Guarantee of Tax Consequences. The Company, Board and Committee make no commitment or guarantee to Participant that any federal, state or local tax treatment will apply or be available to any person eligible for benefits under this Award Agreement and assumes no liability whatsoever for the tax consequences to Participant.

13. Severability. In the event that any provision of this Award Agreement is, becomes or is deemed to be illegal, invalid, or unenforceable for any reason, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board or the Committee, such provision shall be construed or deemed amended as necessary to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board or the Committee, materially altering the intent of the Plan or this Award Agreement, such provision shall be stricken as to such jurisdiction, the Participant or this Award Agreement, and the remainder of this Award Agreement shall remain in full force and effect.

14. Terms of the Plan Control. This Award Agreement and the underlying Award are made pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, the terms of the Plan, as amended from time to time and interpreted and applied by the Committee, shall govern and take precedence. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan, the terms of which are incorporated herein by reference.

15. Governing Law. This Award Agreement shall be construed in accordance with (excluding any conflict or choice of law provisions of) the laws of the State of Delaware to the extent federal law does not supersede and preempt Delaware law.

16. Consent to Electronic Delivery; Electronic Signature. Except as otherwise prohibited by law, in lieu of receiving documents in paper format, Participant agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company may be required to deliver (including, but not limited to, prospectuses, prospectuses supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered by the Company. Electronic delivery may be via a Company electronic mail system or by reference to a location on a Company intranet to which Participant has access. Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may be required to deliver, and agrees that his electronic signature is the same as, and shall have the same force and effect as, his manual signature.

[SIGNATURE PAGE FOLLOWS]

COMPANY:

Flotek Industries, Inc.

By: _____

Name Printed: _____

Title: _____

Date: _____

PARTICIPANT:

Jesse "Jemmy" Neyman

Address:

Date: _____

EXHIBIT A

Assignment Separate from Certificate

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto Flotek Industries, Inc., a Delaware corporation (the "Company"), (_____) shares of common stock of the Company represented by Certificate No. _____ and does hereby irrevocably constitute and appoint _____, or his designee or successor, as attorney to transfer the said stock on the books of the Company with full power of substitution in the premises.

Dated: _____, 20 ____ .

Print Name

Signature

INSTRUCTIONS: PLEASE DO NOT FILL IN ANY BLANKS OTHER THAN THE SIGNATURE LINE. THE PURPOSE OF THIS ASSIGNMENT IS TO ENABLE THE COMPANY TO EXERCISE ITS "REPURCHASE OPTION" SET FORTH IN THE AWARD AGREEMENT WITHOUT REQUIRING ADDITIONAL SIGNATURES ON THE PART OF THE PURCHASER.

FLOTEK INDUSTRIES, INC.
2010 LONG-TERM INCENTIVE PLAN
RESTRICTED STOCK AGREEMENT

1. Grant of Restricted Stock. Subject to the conditions described in this agreement (the "Award Agreement") and in the **Flotek Industries, Inc 2010 Long-Term Incentive Plan**, as amended from time to time (the "Plan"), Flotek Industries, Inc., a Delaware corporation (the "Company"), hereby agrees to grant to John Chisholm ("Participant") shares of "Restricted Stock" of the Company.

2. Number of Shares of Restricted Stock Granted. 22,887 shares of Restricted Stock (common stock of the Company, \$0.0001 par value per share).

3. Grant Date. June 3, 2011.

4. Vesting Schedule. Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, Participant shall vest in his/her rights under the Restricted Stock and the Company's right to the return and reacquisition of such shares shall lapse on the date that the Compensation Committee of the Company's Board of Directors adopts a resolution certifying that the Minimum Target EBITDA (as hereinafter defined) has been achieved.

5. Issuance and Transferability.

(a) Registration and Restricting Legend. Upon grant, the Restricted Stock granted hereunder shall be registered in the name of Participant and, unless and until such Restricted Stock vests, shall be left on deposit with the Company, or in trust or escrow pursuant to an agreement satisfactory to the Company, until such time as the restrictions on transfer have lapsed. If the shares of Restricted Stock are represented by certificates, such certificates shall be marked with the following legend:

"The shares represented by this certificate have been issued pursuant to the terms of the Flotek Industries, Inc. 2010 Long-Term Incentive Plan and may not be sold, pledged, transferred, assigned or otherwise encumbered in any manner except as is set forth in the terms of the Restricted Stock Agreement dated June 3, 2011."

(b) Book Entry Form. If the shares are held in book entry form, then such entry will reflect, in a manner sufficient to effect in a legally enforceable form, that such shares of Restricted Stock are subject to the restrictions of this Award Agreement and the Plan.

(c) Stock Power. Participant will deliver to the Company a stock power, in substantially the form as Exhibit A attached hereto or such form as required by the Company, endorsed in blank, with respect to the Restricted Stock.

(d) Release of Restrictions. Upon vesting of the shares of Restricted Stock and satisfaction of any other conditions required by the Plan or pursuant to this Award Agreement, the Company shall promptly either issue a stock certificate, without such restricted legend, for any shares of the Restricted Stock that have vested, or, if the shares are held in book entry form, the Company shall remove the notations on the book entry registrations for any shares of the Restricted Stock that have vested.

(e) Prohibition on Transfer. Until restrictions lapse, the Restricted Stock shall not be transferable. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of Participant. Any purported assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock, regardless of by whom initiated or attempted, prior to the lapse of restrictions shall be void and unenforceable against the Company. If, notwithstanding the foregoing, an assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock is effected by operation of law, court order or otherwise, the affected Restricted Stock shall remain subject to the risk of forfeiture, vesting requirement and all other terms and conditions of this Award Agreement. In the case of Participant's death or Disability, Participant's vested rights under this Award Agreement (if any) may be exercised and enforced by Participant's guardian or legal representative.

6. Forfeiture.

(a) In the event of the occurrence of any of the following:

(i) Participant's Termination during 2011 for a reason other than a reason that causes Vesting pursuant to Section 6(b) of this Agreement; or

(ii) the determination by the Compensation Committee of the Company's Board of Directors that the Company failed to achieve "Adjusted EBITDA" for 2011 which equals or exceeds the minimum amount required pursuant to the 2011 Management Incentive Plan of the Company for participants thereunder to receive any bonus whatsoever pursuant to the terms thereof ("Minimum Target EBITDA");

the Restricted Stock shall immediately be forfeited and the Company shall repurchase such forfeited shares from the Participant for the lesser of (i) the amount paid by the Participant to the Company for such shares, if any, or (ii) the Fair Market Value of an equivalent number of shares of Common Stock determined on the date the Restricted Stock is forfeited.

(b) If not already forfeited pursuant to Section 6(a)(i), the occurrence of any of the following events prior to January 1, 2012 shall cause the Restricted Stock to be considered immediately Vested: (i) the death of Participant, (ii) the Disability of Participant or (iii) a Termination for a reason that entitles Protechnics II, Inc. to severance compensation pursuant to Section 6.3 (a) or (b) of that certain Second Amended and Restated Service Agreement between the Company and Protechnics II, Inc. dated November 10, 2010 and effective as of November 15, 2010, as amended by that Amendment to Second Amended and Restated Service Agreement dated May 19, 2011.

7. Ownership Rights. Subject to any reservations, conditions or restrictions set forth in this Award Agreement and/or the Plan, upon grant to Participant of the Restricted Stock, Participant shall be entitled to all voting rights applicable to the Restricted Stock during the Restricted Period. In the event of forfeiture of shares of Restricted Stock, the Participant shall have no further rights with respect to such Restricted Stock.

8. Reorganization of the Company. The existence of this Award Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; any merger or consolidation of the Company; any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Restricted Stock or the rights thereof; the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

9. Certain Restrictions. By executing this Award Agreement, Participant acknowledges that he will enter into such written representations, warranties and agreements and execute such documents as the Company may reasonably request in order to comply with the securities law or any other applicable laws, rules or regulations, or with this Award Agreement or the terms of the Plan.

10. Amendment and Termination. This Award Agreement may be amended or terminated only with the prior written consent of the Company and Participant.

11. Taxes and Withholdings.

(a) Tax Consequences. The granting, vesting and/or sale of all or any portion of the Restricted Stock may trigger tax liability. Participant agrees that he/she shall be solely responsible for any such tax liability. Participant is encouraged to contact his tax advisor to discuss any tax implications which may arise in connection with the Restricted Stock.

(b) Withholding. Participant acknowledges that the vesting of Restricted Stock granted pursuant to this Award Agreement, the making of an election under Section 83(b) of the Code and the vesting and payment of any accrued dividends may result in federal, state or local tax withholding obligations. Participant understands and acknowledges that the Company will not deliver shares of Common Stock or make any payment of accrued dividends until it is satisfied that appropriate arrangements have been made to satisfy any tax obligation under this Award Agreement or the Plan and agrees to make appropriate arrangements suitable to the Company for satisfaction of all tax withholding obligations. Further, Participant hereby agrees and grants to the Company the right to withhold from any payments or amounts of compensation, payable in cash or otherwise, in order to meet any tax withholding obligations under this Award Agreement or the Plan. As such, if the Company requests that Participant take any action required to

effect any action described in this Section and to satisfy the tax withholding obligation pursuant to this Award Agreement and the Plan, Participant hereby agrees to promptly take any such action.

(c) Section 83(b). Participant understands that any election under Section 83(b) of the Code with regard to the Restricted Stock must be made within thirty (30) days of the Grant Date and that, in the event of such election, Participant will so notify the Company in writing on or before such date.

12. No Guarantee of Tax Consequences. The Company, Board and Committee make no commitment or guarantee to Participant that any federal, state or local tax treatment will apply or be available to any person eligible for benefits under this Award Agreement and assumes no liability whatsoever for the tax consequences to Participant.

13. Severability. In the event that any provision of this Award Agreement is, becomes or is deemed to be illegal, invalid, or unenforceable for any reason, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board or the Committee, such provision shall be construed or deemed amended as necessary to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board or the Committee, materially altering the intent of the Plan or this Award Agreement, such provision shall be stricken as to such jurisdiction, the Participant or this Award Agreement, and the remainder of this Award Agreement shall remain in full force and effect.

14. Terms of the Plan Control. This Award Agreement and the underlying Award are made pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, the terms of the Plan, as amended from time to time and interpreted and applied by the Committee, shall govern and take precedence. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan, the terms of which are incorporated herein by reference.

15. Governing Law. This Award Agreement shall be construed in accordance with (excluding any conflict or choice of law provisions of) the laws of the State of Delaware to the extent federal law does not supersede and preempt Delaware law.

16. Consent to Electronic Delivery; Electronic Signature. Except as otherwise prohibited by law, in lieu of receiving documents in paper format, Participant agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company may be required to deliver (including, but not limited to, prospectuses, prospectuses supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered by the Company. Electronic delivery may be via a Company electronic mail system or by reference to a location on a Company intranet to which Participant has access. Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may be required to deliver, and agrees that his electronic signature is the same as, and shall have the same force and effect as, his manual signature.

[SIGNATURE PAGE FOLLOWS]

COMPANY:

Flotek Industries, Inc.

By: _____

Name Printed: _____

Title: _____

Date: _____

PARTICIPANT:

John Chisholm

Address:

Date: _____

EXHIBIT A

Assignment Separate from Certificate

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto Flotek Industries, Inc., a Delaware corporation (the "Company"), (_____) shares of common stock of the Company represented by Certificate No. _____ and does hereby irrevocably constitute and appoint _____, or his designee or successor, as attorney to transfer the said stock on the books of the Company with full power of substitution in the premises.

Dated: _____, 20 ____ .

Print Name

Signature

INSTRUCTIONS: PLEASE DO NOT FILL IN ANY BLANKS OTHER THAN THE SIGNATURE LINE. THE PURPOSE OF THIS ASSIGNMENT IS TO ENABLE THE COMPANY TO EXERCISE ITS "REPURCHASE OPTION" SET FORTH IN THE AWARD AGREEMENT WITHOUT REQUIRING ADDITIONAL SIGNATURES ON THE PART OF THE PURCHASER.

FLOTEK INDUSTRIES, INC.
2010 LONG-TERM INCENTIVE PLAN
RESTRICTED STOCK AGREEMENT

1. Grant of Restricted Stock. Subject to the conditions described in this agreement (the "Award Agreement") and in the **Flotek Industries, Inc 2010 Long-Term Incentive Plan**, as amended from time to time (the "Plan"), Flotek Industries, Inc., a Delaware corporation (the "Company"), hereby agrees to grant to Johnna Kokenge ("Participant") shares of "Restricted Stock" of the Company.

2. Number of Shares of Restricted Stock Granted. 7,653 shares of Restricted Stock (common stock of the Company, \$0.0001 par value per share).

3. Grant Date. June 3, 2011.

4. Vesting Schedule. Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, Participant shall vest in his/her rights under the Restricted Stock and the Company's right to the return and reacquisition of such shares shall lapse on the date that the Compensation Committee of the Company's Board of Directors adopts a resolution certifying that the Minimum Target EBITDA (as hereinafter defined) has been achieved.

5. Issuance and Transferability.

(a) Registration and Restricting Legend. Upon grant, the Restricted Stock granted hereunder shall be registered in the name of Participant and, unless and until such Restricted Stock vests, shall be left on deposit with the Company, or in trust or escrow pursuant to an agreement satisfactory to the Company, until such time as the restrictions on transfer have lapsed. If the shares of Restricted Stock are represented by certificates, such certificates shall be marked with the following legend:

"The shares represented by this certificate have been issued pursuant to the terms of the Flotek Industries, Inc. 2010 Long-Term Incentive Plan and may not be sold, pledged, transferred, assigned or otherwise encumbered in any manner except as is set forth in the terms of the Restricted Stock Agreement dated June 3, 2011."

(b) Book Entry Form. If the shares are held in book entry form, then such entry will reflect, in a manner sufficient to effect in a legally enforceable form, that such shares of Restricted Stock are subject to the restrictions of this Award Agreement and the Plan.

(c) Stock Power. Participant will deliver to the Company a stock power, in substantially the form as Exhibit A attached hereto or such form as required by the Company, endorsed in blank, with respect to the Restricted Stock.

(d) Release of Restrictions. Upon vesting of the shares of Restricted Stock and satisfaction of any other conditions required by the Plan or pursuant to this Award Agreement, the Company shall promptly either issue a stock certificate, without such restricted legend, for any shares of the Restricted Stock that have vested, or, if the shares are held in book entry form, the Company shall remove the notations on the book entry registrations for any shares of the Restricted Stock that have vested.

(e) Prohibition on Transfer. Until restrictions lapse, the Restricted Stock shall not be transferable. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of Participant. Any purported assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock, regardless of by whom initiated or attempted, prior to the lapse of restrictions shall be void and unenforceable against the Company. If, notwithstanding the foregoing, an assignment, alienation, pledge, attachment, sale, transfer or other encumbrance of the Restricted Stock is effected by operation of law, court order or otherwise, the affected Restricted Stock shall remain subject to the risk of forfeiture, vesting requirement and all other terms and conditions of this Award Agreement. In the case of Participant's death or Disability, Participant's vested rights under this Award Agreement (if any) may be exercised and enforced by Participant's guardian or legal representative.

6. Forfeiture.

(a) In the event of the occurrence of any of the following:

(i) Participant's Termination during 2011 for a reason other than a reason that causes Vesting pursuant to Section 6(b) of this Agreement; or

(ii) the determination by the Compensation Committee of the Company's Board of Directors that the Company failed to achieve "Adjusted EBITDA" for 2011 which equals or exceeds the minimum amount required pursuant to the 2011 Management Incentive Plan of the Company for participants thereunder to receive any bonus whatsoever pursuant to the terms thereof ("Minimum Target EBITDA");

the Restricted Stock shall immediately be forfeited and the Company shall repurchase such forfeited shares from the Participant for the lesser of (i) the amount paid by the Participant to the Company for such shares, if any, or (ii) the Fair Market Value of an equivalent number of shares of Common Stock determined on the date the Restricted Stock is forfeited.

(b) If not already forfeited pursuant to Section 6(a)(i), the occurrence of any of the following events prior to January 1, 2012 shall cause the Restricted Stock to be considered immediately Vested: (i) the death of Participant, (ii) the Disability of Participant or (iii) a Termination for a reason that entitles Participant to severance compensation pursuant to Section 5(a) and (b) of that certain Employment Agreement between the Company and Participant dated February 28, 2011 and effective as of November 10, 2010, as amended by that Amendment to Employment Agreement dated May 19, 2011.

7. Ownership Rights. Subject to any reservations, conditions or restrictions set forth in this Award Agreement and/or the Plan, upon grant to Participant of the Restricted Stock, Participant shall be entitled to all voting rights applicable to the Restricted Stock during the Restricted Period. In the event of forfeiture of shares of Restricted Stock, the Participant shall have no further rights with respect to such Restricted Stock.

8. Reorganization of the Company. The existence of this Award Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; any merger or consolidation of the Company; any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Restricted Stock or the rights thereof; the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

9. Certain Restrictions. By executing this Award Agreement, Participant acknowledges that he will enter into such written representations, warranties and agreements and execute such documents as the Company may reasonably request in order to comply with the securities law or any other applicable laws, rules or regulations, or with this Award Agreement or the terms of the Plan.

10. Amendment and Termination. This Award Agreement may be amended or terminated only with the prior written consent of the Company and Participant.

11. Taxes and Withholdings.

(a) Tax Consequences. The granting, vesting and/or sale of all or any portion of the Restricted Stock may trigger tax liability. Participant agrees that he/she shall be solely responsible for any such tax liability. Participant is encouraged to contact his tax advisor to discuss any tax implications which may arise in connection with the Restricted Stock.

(b) Withholding. Participant acknowledges that the vesting of Restricted Stock granted pursuant to this Award Agreement, the making of an election under Section 83(b) of the Code and the vesting and payment of any accrued dividends may result in federal, state or local tax withholding obligations. Participant understands and acknowledges that the Company will not deliver shares of Common Stock or make any payment of accrued dividends until it is satisfied that appropriate arrangements have been made to satisfy any tax obligation under this Award Agreement or the Plan and agrees to make appropriate arrangements suitable to the Company for satisfaction of all tax withholding obligations. Further, Participant hereby agrees and grants to the Company the right to withhold from any payments or amounts of compensation, payable in cash or otherwise, in order to meet any tax withholding obligations under this Award Agreement or the Plan. As such, if the Company requests that Participant take any action required to

effect any action described in this Section and to satisfy the tax withholding obligation pursuant to this Award Agreement and the Plan, Participant hereby agrees to promptly take any such action.

(c) Section 83(b). Participant understands that any election under Section 83(b) of the Code with regard to the Restricted Stock must be made within thirty (30) days of the Grant Date and that, in the event of such election, Participant will so notify the Company in writing on or before such date.

12. No Guarantee of Tax Consequences. The Company, Board and Committee make no commitment or guarantee to Participant that any federal, state or local tax treatment will apply or be available to any person eligible for benefits under this Award Agreement and assumes no liability whatsoever for the tax consequences to Participant.

13. Severability. In the event that any provision of this Award Agreement is, becomes or is deemed to be illegal, invalid, or unenforceable for any reason, or would disqualify the Plan or this Award Agreement under any law deemed applicable by the Board or the Committee, such provision shall be construed or deemed amended as necessary to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board or the Committee, materially altering the intent of the Plan or this Award Agreement, such provision shall be stricken as to such jurisdiction, the Participant or this Award Agreement, and the remainder of this Award Agreement shall remain in full force and effect.

14. Terms of the Plan Control. This Award Agreement and the underlying Award are made pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, the terms of the Plan, as amended from time to time and interpreted and applied by the Committee, shall govern and take precedence. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan, the terms of which are incorporated herein by reference.

15. Governing Law. This Award Agreement shall be construed in accordance with (excluding any conflict or choice of law provisions of) the laws of the State of Delaware to the extent federal law does not supersede and preempt Delaware law.

16. Consent to Electronic Delivery; Electronic Signature. Except as otherwise prohibited by law, in lieu of receiving documents in paper format, Participant agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company may be required to deliver (including, but not limited to, prospectuses, prospectuses supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered by the Company. Electronic delivery may be via a Company electronic mail system or by reference to a location on a Company intranet to which Participant has access. Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may be required to deliver, and agrees that his electronic signature is the same as, and shall have the same force and effect as, his manual signature.

[SIGNATURE PAGE FOLLOWS]

COMPANY:

Flotek Industries, Inc.

By: _____
Name Printed: _____
Title: _____
Date: _____

PARTICIPANT:

Johnna Kokenge

Address: _____

Date: _____

EXHIBIT A

Assignment Separate from Certificate

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto Flotek Industries, Inc., a Delaware corporation (the "Company"), (_____) shares of common stock of the Company represented by Certificate No. _____ and does hereby irrevocably constitute and appoint _____, or his designee or successor, as attorney to transfer the said stock on the books of the Company with full power of substitution in the premises.

Dated: _____, 20 ____ .

Print Name

Signature

INSTRUCTIONS: PLEASE DO NOT FILL IN ANY BLANKS OTHER THAN THE SIGNATURE LINE. THE PURPOSE OF THIS ASSIGNMENT IS TO ENABLE THE COMPANY TO EXERCISE ITS "REPURCHASE OPTION" SET FORTH IN THE AWARD AGREEMENT WITHOUT REQUIRING ADDITIONAL SIGNATURES ON THE PART OF THE PURCHASER.

EXCHANGE AGREEMENT

This Exchange Agreement (“**Agreement**”) sets forth the terms and conditions upon which Flotek Industries, Inc., a Delaware corporation (“**Company**”), will issue the number of shares (the “**Shares**”) of Company’s Common Stock, par value \$0.0001 per share (“**Common Stock**”), indicated on the signature page hereof to the holder indicated on the signature page hereof (“**Holder**”), in exchange for the aggregate principal amount of the Company’s debt securities (the “**Exchanged Notes**”) identified on the signature page hereof.

SECTION 1. Exchange. Holder agrees to sell and transfer the Exchanged Notes to Company and Company agrees to purchase the Exchanged Notes from Holder, in consideration of and in exchange for the sale and transfer by Company to Holder of the Shares. As promptly as reasonably practicable, but in no event later than five business days after the execution of this Agreement, Holder shall deliver the Exchanged Notes to Company by due and proper instruments of transfer reasonably acceptable to Company and its legal counsel. Subject to and upon such delivery of the Exchanged Notes, as promptly as reasonably practicable, but in no event later than five business days after the execution of this Agreement, Company shall deliver to Holder certificates or other appropriate documentation for the Shares, duly registered in the name of the Holder.

SECTION 2. Representations And Warranties Of Holder. Holder represents and warrants to the Company, as of the date hereof and as of the date of delivery of the Exchanged Notes that:

(a) The execution, delivery and performance by Holder of this Agreement, and the consummation of the transactions contemplated hereby are within the powers of Holder and have been or will have been duly authorized by all necessary action on the part of Holder, and that this Agreement constitutes a valid and binding agreement of Holder, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement or creditors’ rights generally or (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

(b) The execution, delivery and performance by Holder of this Agreement and the consummation of the transactions contemplated hereby require no order, license, consent, authorization or approval of, or exemption by, or action by or in respect of, or notice to, or filing or registration with, any governmental body, agency or official on the part of Holder.

(c) The execution, delivery and performance by Holder and Company of this Agreement, and the consummation of the transactions contemplated by this Agreement, do not and will not (i) violate the certificate of incorporation (or similar constituent document) or bylaws of Holder, (ii) violate any material agreement to which Holder is a party or by which Holder or any of its property or assets is bound, or (iii) violate any law, rule, regulation, judgment, injunction, order or decree applicable to Holder.

(d) Holder is the beneficial owner of the Exchanged Notes, and upon the consummation of the transactions contemplated hereby, Company will receive the Exchanged Notes, in each case, free and clear of all encumbrances, liens, equities or claims created by Holder.

(e) There is no investment banker, broker, finder or other intermediary which has been retained by, will be retained by or is authorized to act on behalf of Holder who might be entitled to any fee or commission from Company or Holder upon consummation of the transactions contemplated by this Agreement.

(f) Holder did not purchase the Exchanged Notes with a view to, or for sale in connection with, a distribution of the Shares issuable upon exchange of the Exchanged Notes in such a manner that Holder would be deemed an underwriter of the Shares under applicable law.

SECTION 3. Representations And Warranties Of Company. Company represents and warrants to the Holder, as of the date hereof and as of the date of delivery of the Shares, that:

(a) The execution, delivery and performance by Company of this Agreement, and the consummation of the transactions contemplated hereby and thereby are within the powers of Company and have been or will have been duly authorized by all necessary action on the part of Company, and that this Agreement constitutes a valid and binding agreement of Company, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement or creditors' rights generally or (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

(b) The execution, delivery and performance by Company of this Agreement and the consummation of the transactions contemplated hereby require no order, license, consent, authorization or approval of, or exemption by, or action by or in respect of, or notice to, or filing or registration with, any governmental body, agency or official on the part of Company.

(c) The execution, delivery and performance by Holder and Company of this Agreement, and the consummation of the transactions contemplated by this Agreement, do not and will not (i) violate the certificate of incorporation or bylaws of Company, (ii) violate any material agreement to which Company is a party or by which Company or any of its property or assets is bound, or (iii) violate any law, rule, regulation, judgment, injunction, order or decree applicable to Company.

(d) The Shares, when issued in exchange for the Exchanged Notes in accordance with this Agreement, will be duly and validly authorized and issued, fully-paid and non-assessable, free and clear of all encumbrances, liens, equities or claims.

(e) There is no investment banker, broker, finder or other intermediary which has been retained by, will be retained by or is authorized to act on behalf of Company who might be entitled to any fee or commission from Company or Holder upon consummation of the transactions contemplated by this Agreement.

(f) The exchange of the Exchanged Notes for the Shares hereby is exempt from registration under Section 3(a)(9) of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

SECTION 4. *Survival; Indemnity.* The representations and warranties of the parties hereto contained in this Agreement shall survive the consummation of the transactions contemplated hereby. Holder and Company agree to indemnify and protect the other party, its employees, contractors, agents and attorneys and its successors and assigns and hold them harmless from and against any and all losses, liabilities, costs and expenses (including reasonable attorneys' fees) incurred as a result of the breach by Holder or Company, as applicable, of any of its representations, warranties or covenants contained in this Agreement

SECTION 5. *Notices.* All notices, requests and other communications to any party hereunder shall be in writing (including facsimile transmission) and shall be given,

if to Holder, as indicated on the signature page hereto,

if to Company to:

Flotek Industries, Inc.
2930 Sam Houston Parkway N., Suite 300
Houston, Texas 77043
Fax: (281) 715-4145
Attention: Chief Financial Officer

with a copy to:

Andrews Kurth LLP
600 Travis Street, Suite 4200
Houston, Texas 77002
Fax: 713-238-7111
Attention: W. Mark Young

or to such other address or telecopy number and with such other copies as such party may hereafter specify for the purpose of notice. All such notices, requests

and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5 p.m. in the place of receipt and such day is a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed not to have been received until the next succeeding business day in the place of receipt.

SECTION 6. *Amendments and Waivers.* Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by each party to this Agreement, or in the case of a waiver, by the party against whom the waiver is to be effective. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 7. *Successors and Assigns.* The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; *provided* that no party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of each other party hereto.

SECTION 8. *Governing Law.* This Agreement shall be governed by and construed in accordance with the law of the State of New York.

SECTION 9. *Jurisdiction; WAIVER OF JURY TRIAL.* Each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any Federal or state court located in the Borough of Manhattan in The City of New York, New York in the event any dispute arises out of this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement in any court other than a Federal or state court located in the Borough of Manhattan in The City of New York, New York. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 10. *Counterparts; Third Party Beneficiaries.* This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other party hereto. No provision of this Agreement shall confer upon any person other than the parties hereto any rights or remedies hereunder.

SECTION 11. *Entire Agreement.* This Agreement constitutes the entire agreement between the parties with respect to the subject matter of this Agreement and supersedes all prior agreements and understandings, both oral and written, between the parties with respect to the subject matter of this Agreement.

SECTION 12. *Captions.* The captions herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof.

[Signature Page Follows]

If the foregoing is acceptable to you, please acknowledge your agreement by signing below in the space provided for your signature and returning an original copy hereof.

DATE: _____

Flotek Industries, Inc.

By: _____

Name:

Title:

THE FOREGOING IS AGREED TO AND
ACKNOWLEDGED BY:

[Noteholder full name]

Name:

Title:

Address for Notices to Holder pursuant to Section 5:

[street]

[city, state]

Fax: _____

Attention: [name]

Title of debt securities ("**Exchanged Notes**"):

5.25% Convertible Senior Notes due 2028, CUSIP No. 343389AAO

Original Principal amount of Exchanged Notes:

\$ _____

Number of shares of Common Stock to be issued in exchange:

CERTIFICATION

I, John W. Chisholm, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Flotek Industries, Inc.;
2. Based on my knowledge this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JOHN W. CHISHOLM

John W. Chisholm
Chairman and President

Date: August 10, 2011

CERTIFICATION

I, Jesse E. Neyman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Flotek Industries, Inc.;
2. Based on my knowledge this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JESSE E. NEYMAN

Jesse E. Neyman
Executive Vice President, Finance

Date: August 10, 2011

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Flotek Industries, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN W. CHISHOLM

John W. Chisholm
Chairman and President

Date: August 10, 2011

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Flotek Industries, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JESSE E. NEYMAN

Jesse E. Neyman
Executive Vice President, Finance

Date: August 10, 2011